

THE KAISER FAMILY FOUNDATION  
- AND -  
HEALTH RESEARCH AND  
EDUCATIONAL TRUST

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# Employer Health Benefits

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2002  
ANNUAL SURVEY



-AND-



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## SUMMARY OF FINDINGS

Employer-sponsored health insurance reaches nearly two out of every three Americans, including active workers, retirees, and their dependents. To provide current information about the nature of employer-provided health benefits, the Kaiser Family Foundation and Health Research and Educational Trust conduct an annual national survey of employers of all sizes. This brief summarizes findings from the 2002 Kaiser/HRET Survey.

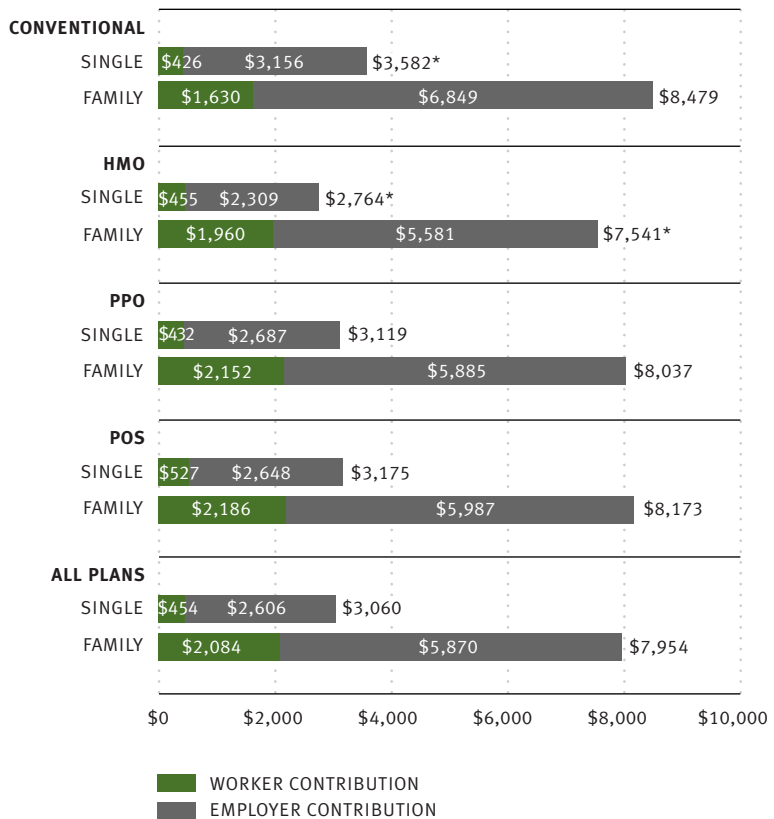
### HEALTH INSURANCE PREMIUMS

Between spring of 2001 and spring of 2002, monthly premiums for employer-sponsored health insurance rose 12.7%, the second consecutive year of double-digit premium increases, and the largest increase since 1990. Average annual premium costs rose to \$3,060 for single coverage (up from \$2,650 in 2001) and \$7,954 for family coverage (up from \$7,053 in 2001). Premiums increased substantially faster than overall inflation (1.6%) and wage gains for non-supervisory workers (3.4%). Average rates of increase were similar across firm sizes, industries, and regions of the country, but there was significant variability around the average: 21% of employees worked for firms where premiums increased by 5% or less, while 33% of employees worked for firms where premiums increased by more than 15% (EXHIBITS A and B).

Of all plan types, health maintenance organizations (HMOs) remain the least costly and conventional fee-for-service plans remain the most expensive.

### EXHIBIT A

Average Annual Premium Costs for Covered Workers, Single and Family Coverage, 2002

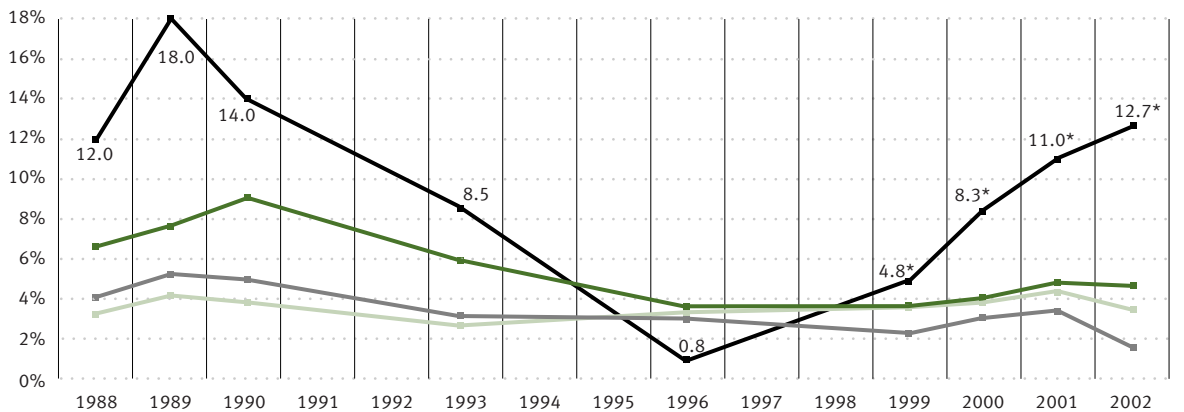


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

\*Estimate is statistically different from All Plans by coverage type.

## EXHIBIT B

### Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2002



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index, US City Average of Annual Inflation (April to April), and Medical Inflation, 1988-2002; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1988-2002.

\* Estimate is statistically different from the previous year shown: 1996-1999, 1999-2000, 2000-2001, 2001-2002.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

— HEALTH INSURANCE PREMIUMS  
 — MEDICAL INFLATION  
 — OVERALL INFLATION  
 — WORKERS' EARNINGS

This high rate of growth appears to have been driven primarily by rapid inflation in spending for health care services. Premium equivalents for self-insured plans (the estimated cost of health care claims for an employee whose employer self-insures) – which are a reflection of growth in underlying health care costs – grew by 12.3% over the last year, or roughly the same rate as premiums for insured plans. This suggests that insurers' decisions about premiums are being influenced more by cost trends than by catch-up pricing associated with the underwriting cycle.

### EMPLOYEE CONTRIBUTIONS AND COST-SHARING

Workers are paying more for single coverage than they did in 2001. On average, employees are now paying \$38 per month (\$454 per year) for single coverage, a 27% increase from last year, and \$174 per month (\$2,084 per year) for family coverage, a 16% increase

(EXHIBIT C). Despite these large increases, the percentage of premiums paid by workers is statistically unchanged over the last two years, at 16% for single coverage and 27% for family coverage. However, single employees are still paying a substantially lower share than the 21% of the premium they were paying in 1996.

During the past year, employers have also increased patient cost-sharing requirements in the form of higher deductibles and copayments. For PPO plans (the most common type of plan covering about half of all workers), the average deductible for preferred providers increased 37% to \$276. The percentage of workers in HMOs facing a \$20 copayment for outpatient physician services rose from 2% last year to 11%. Tiered insurance plans, where cost-sharing varies for in-network providers based on their cost and, in some cases, their quality, are used for 5-9% of covered workers, depending on plan type.

Copayments for prescription drugs continue to creep up, averaging \$9 for generics, \$17 for preferred drugs (brand name drugs with no generic substitutes), and \$26 for non-preferred drugs (brand name drugs with generic substitutes). Copayments for non-preferred drugs increased substantially, from \$21 last year to \$26 in 2002. The use of three-tier cost-sharing arrangements has nearly doubled over the past two years, growing from 29% of covered workers in 2000 to 57% in 2002. Additionally, 28% of covered workers have two-tier cost sharing.

The rise in employee costs is likely to continue. Fifty-six percent of large firms (200 or more workers) increased the amount that employees paid for health insurance in 2002, and 78% say that a further increase is very or somewhat likely next year. About one-third of all firms and 42% of large firms say that they are very or somewhat likely to increase deductibles next year. While the

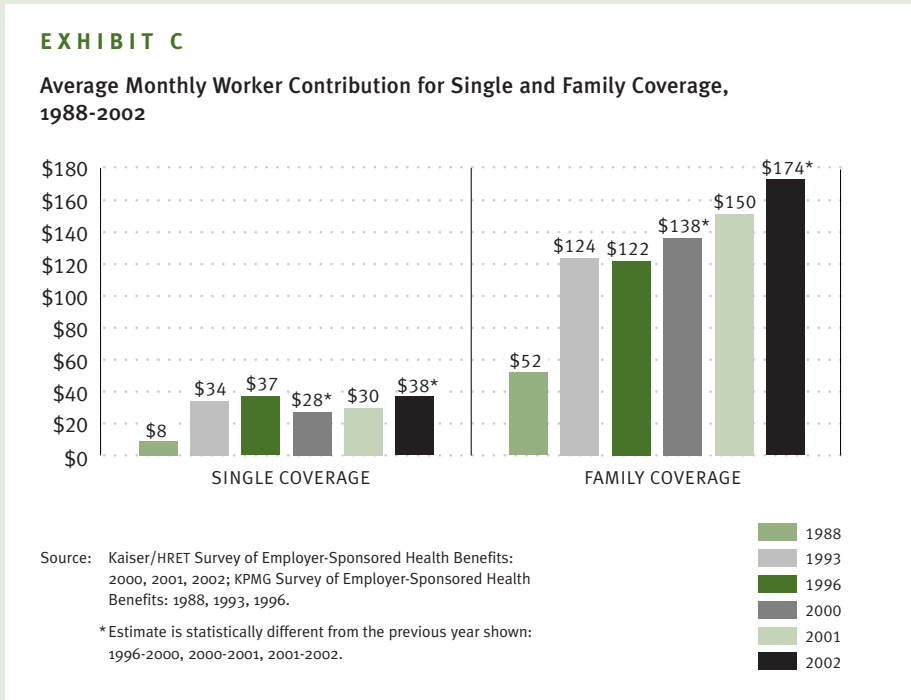
less competitive labor market may make it easier for employers to pass along the cost of health insurance to employees, doing so may have an adverse impact on a firm's ability to attract and retain workers. Among the firms that did not increase the amount that employees pay, 15% reported it was much easier to attract and retain workers in the last year, compared to 4% of firms who increased employee costs.

### COVERAGE

With a weakened economy and escalating premium inflation, the brief period of increasing employer coverage – and concomitant drop in the number of uninsured Americans – has come to a close. In 2002, 61% of all small businesses (3-199 employees) offered health coverage to their workers, down from 67% in 2000 ( $p < 0.1$ ). This may be evidence of erosion in the number of small firms offering coverage – we will need to watch for this trend next year.

Coverage continues to vary substantially by firm size: 55% of the smallest companies (3-9 workers) offer health insurance, but that rises to 74% for firms with 10 to 24 workers and 88% for businesses with 25 to 49 employees. Nearly all firms with 50 or more workers offer coverage. Firms with many part-time workers are less likely to offer health insurance – only 38% of firms with a high percentage (35% or more) of part-time workers offer health coverage to their employees, compared with 64% of firms with fewer part-time workers. Firms that employ union workers are very likely to offer coverage (92%) (EXHIBIT D).

However, even when a firm offers health insurance, not all workers get covered. In firms that offer coverage, 79% of workers



are eligible for coverage, and 84% of those eligible elect to take it. In firms offering coverage, 67% of workers have job-based health insurance through their employers.

Rapidly increasing premiums have generated speculation that employers may move to new types of health insurance arrangements in order to help control future costs. One such option is a defined contribution approach – where, in the extreme, employees are given cash to buy health insurance on their own rather than selecting among plans with which the employer contracts. As in previous years, however, most firms say they are not likely to move to this defined contribution approach, with only 6% of firms reporting that it is very likely and 17% reporting that it is somewhat likely that they will move to such an arrangement in the next five years.

The debate over expanding Medicare to cover prescription drug benefits continues in 2002, calling attention to employer cover-

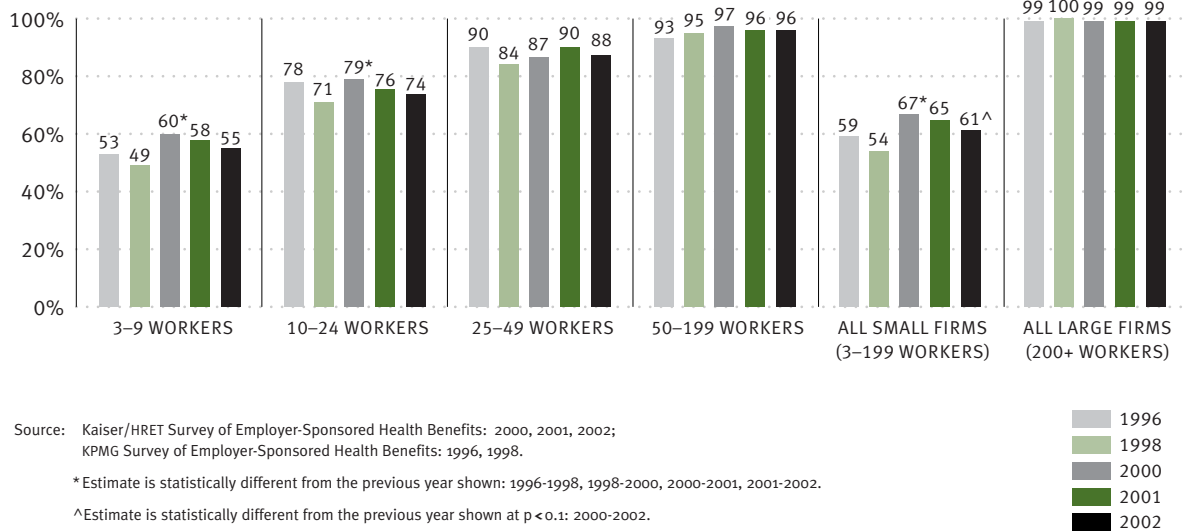
age of retirees (which accounts for most of the drug coverage now provided to Medicare-age beneficiaries). Of firms offering retiree health benefits, 31% (and 60% of firms with 5,000 or more workers) increased the share of premiums paid by enrollees. This year, 9% of large firms (200 or more workers) report that they have eliminated retiree benefits for new employees or for current employees who have not yet retired; 11% of large firms say that they are very or somewhat likely to do so over the next two years.

### HEALTH PLAN ENROLLMENT AND CHOICE

PPOs continue to be the most common plan in 2002, enrolling just over half of all employees with health coverage. HMO enrollment, which had been falling over the past several years, appears to have stabilized. HMOs cover about 26% of employees with health insurance this year. Conventional (or indemnity) insurance has all but disappeared, enrolling just 5% of employees.

## EXHIBIT D

Percentage of Firms Offering Health Benefits, by Firm Size, 1996-2002



Most workers with health coverage through their employers continue to have a choice of health plans, with just under half having a choice of three or more plans. PPO coverage continues in 2002 to be the most common health plan option. Small firms (3-199 workers) are much less likely to offer workers a choice of health plans than larger companies – 93% of all small firms that provide coverage offer just one health plan, compared to 40% of larger businesses.

### HEALTH BENEFITS

In general, larger firms offer somewhat more generous benefits than smaller firms, and HMO and POS plans tend to offer the most comprehensive benefits packages.

While most workers experienced no change in benefits in 2002, for the first time in several years, the percentage of covered workers in firms that report a decrease in the level of benefits offered to workers is greater than

the percentage reporting increases, with 10% reporting benefit increases and 17% reporting benefit reductions. The percentage of workers in firms reporting decreased levels of benefits has been rising in the last several years, from 7% of all firms in 2000 to 17% of all firms in 2002.

### OUTLOOK FOR THE FUTURE

This year's survey shows that multiple years of accelerating premium growth and a weakened economy may have begun to erode the coverage improvements of the past few years. The survey raises a cautionary note, with fewer small employers appearing to be offering health benefits (61%). A majority of employers (53% of all firms and 65% of large firms with 200 or more employees) report that health insurance is the benefit that causes the greatest cost concern, and employers (61%) remain very or somewhat worried that the cost of health insurance will increase faster than they can afford. These results have held

steady over the last few years. Despite concerns over increasing costs, however, less than 1% of firms report that they are very likely to stop offering health benefits in the near future.

What seems clear is that employees are likely to pay more for health benefits and health care in the future. This year, 43% of all firms and 78% of large firms (200 or more workers) report that they are very or somewhat likely to increase the amount that employees pay in 2003. Thirty-two percent of all firms and 42% of large firms report that they are very or somewhat likely to increase deductibles, while 34% of all firms say they are very or somewhat likely to raise employee costs for prescription drugs. A slightly higher percentage of all firms report they are very or somewhat likely to increase employee's costs or restrict eligibility for coverage if the economic downturn continues or premiums increase next year by 20% or more.



EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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Survey Design  
and Methods

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## SURVEY DESIGN AND METHODS

THE KAISER FAMILY FOUNDATION AND HEALTH RESEARCH AND EDUCATIONAL TRUST (KAISER/HRET) CONDUCT THIS SURVEY OF EMPLOYER-SPONSORED HEALTH BENEFITS, WHICH WAS SUPPORTED FOR MANY YEARS BY THE INTERNATIONAL CONSULTING AND ACCOUNTING FIRM KPMG. IN 1998, KPMG DIVESTED ITSELF OF ITS COMPENSATION AND BENEFITS PRACTICE, AND PART OF THAT DIVESTITURE INCLUDED DONATING THE ANNUAL SURVEY OF HEALTH BENEFITS TO HRET. HRET IS A NON-PROFIT RESEARCH ORGANIZATION. THE KAISER FAMILY FOUNDATION, ONE OF THE NATION'S LARGEST CHARITABLE FOUNDATIONS DEVOTED TO HEALTH CARE, IS CONTINUING THE SURVEY IN PARTNERSHIP WITH HRET. THE FOUNDATION PROVIDES INDEPENDENT RESEARCH AND ANALYSIS ON HEALTH POLICY ISSUES, AND IS NOT AFFILIATED IN ANY WAY WITH THE KAISER PERMANENTE HEALTH PLAN.

Each company participating in the Kaiser/HRET survey is asked as many as 400 questions about its largest conventional or indemnity, health maintenance organization (HMO), preferred provider organization (PPO) and point-of-service (POS) health plans. This year's survey included questions on the cost of health insurance, offer rates, coverage, eligibility, health plan choice, enrollment patterns, premiums, employee cost-sharing, covered benefits, prescription drug benefits, retiree health benefits, defined contributions, and views on health policy issues.

Kaiser/HRET retained National Research LLC (NR), a Washington, D.C.-based survey research firm, to conduct telephone interviews with human resource and benefits managers. NR conducted interviews from January to May 2002.

Kaiser/HRET drew its sample from a Dun & Bradstreet list of the nation's private and public employers with three or more workers. To increase precision, Kaiser/HRET stratified the sample by industry and the number of workers in the firm. Kaiser/HRET attempted to repeat interviews with many of the 2,327 firms with at least 10 employees interviewed in either 2001 or 2000 and replaced non-responding firms with another firm of the same industry and firm size. As a result, 873 firms in this year's total sample of 2,014 firms participated in both the 2000 and 2001 surveys.<sup>1</sup> The overall response rate was 50%.

From previous years' experience, we have learned that firms that decline to participate in the study are more likely not to offer health coverage. Therefore, we asked one question of all firms

where the individual most responsible for the company's health benefits declined to participate in the full survey. The question was, "Does your company offer or contribute to a health insurance program as a benefit to your employees?" A total of 3,262 firms responded to this question (including 2,014 who responded to the full survey and 1,248 who responded to this one question). Their responses are included in our estimates of the percentage of firms offering health coverage. The response rate for this question was 89%.

Throughout the report, exhibits categorize data by industry, size of firm, and region. Firm size definitions are as follows: 3-9 workers, small; 10-24 workers, small; 25-49 workers, small; 50-199 workers, small; 200-999 workers, midsize; 1,000-4,999 workers, large; and 5,000 or more

### NOTE :

<sup>1</sup> In total, 352 firms participated in 2001 and 2002, 219 firms participated in 2000 and 2002, and 873 firms participated in 2000, 2001, and 2002.

workers, jumbo. Occasionally, firm size categories will be aggregated: 3-199 workers, all small; or 200 or more workers, all large. EXHIBIT M.1 shows detailed characteristics of the sample.

Because Kaiser/HRET selects firms randomly, it is possible through the use of statistical weights to extrapolate the results to national (as well as regional, industry, and firm size) averages. These weights allow Kaiser/HRET to present findings based on the number of workers covered by health plans, the number of total workers, and the number of firms. The calculation of the weights followed a common approach: (i) determination of the basic weight, (ii) application of a non-response adjustment, and (iii) application of a post-stratification adjustment.

EXHIBIT M.2 displays the distribution of the nation's firms, workers, and covered workers (employees receiving coverage from their employer). Among over 6 million firms nationally, approximately 76% are firms employing 3-9 workers. In contrast, jumbo firms, defined as firms with 5,000 or more workers, employ and cover about 38% of employees. Therefore, the smallest employers will dominate national statistics about what firms in general are doing. In contrast, jumbo employers are the most important employer group in calculating national statistics regarding the typical employee or covered worker,

since they employ the largest percentage of the nation's workforce.

The Kaiser/HRET survey is designed to produce nationally representative estimates for firms, workers, and covered workers in companies with three or more employees. The survey sample is based on the Dun and Bradstreet database of US employers, which includes 6,376,113 firms. The Bureau of Labor Statistics estimates there are 135 million workers in all firms in the US as of June 2002<sup>2</sup>, and the Kaiser/HRET survey finds that 62% of their workers in firms offering and not offering health insurance have health coverage through their employer.

Some exhibits in Health Benefits 2002 do not sum up to 100% due to rounding effects. Throughout the report, while overall totals as well as totals for size and industry are statistically valid, some breakdowns may not be available due to limited sample sizes. In these instances, exhibits include the notation NSD (Not Sufficient Data).

To control for item non-response bias, Kaiser/HRET traditionally identified a select set of key variables as needing complete information from all surveyed firms. These variables include percentage changes in premium costs for family coverage, premium amounts, and worker contribution amounts. The list of imputed variables was greatly expanded in 2002 to also include self-insurance status, level of benefits, prescrip-

tion drug cost-sharing, copay and coinsurance amounts for prescription drugs, and firm workforce characteristics such as average income, age and part-time status. On average, 2% of these observations are imputed for any given variable. The imputed values are determined based on the distribution of the reported values within stratum defined by firm size and region.

The data are analyzed with SUDAAN, which computes appropriate standard error estimates by controlling for the complex design of the survey. All statistical tests are performed at the 0.05 level unless noted otherwise. Two types of significance tests performed are the t-Test and the Chi-square test.

To further analyze changes in employer-sponsored health plans during the past few years, this report uses data from the 1993, 1996, and 1998 KPMG Surveys of Employer-Sponsored Health Benefits and the 1999, 2000, and 2001 Kaiser/HRET Surveys of Employer-Sponsored Health Benefits. For a longer-term perspective, we also use the 1988, 1989, and 1990 employer surveys conducted by the Health Insurance Association of America (HIAA), on which the KPMG and Kaiser/HRET surveys are based.<sup>3</sup> Many of the questions in the HIAA, the KPMG, and Kaiser/HRET surveys are identical. The survey designs among the three surveys are also similar.

#### NOTE:

<sup>2</sup> Based on non-seasonally adjusted data for total employment.

<sup>3</sup> HIAA also conducted the survey in 1991, though these data are not available. KPMG conducted the survey in 1992, 1994, and 1997; however, only large firms are sampled in these years, for which reason the data are not comparable to recent estimates. In 1993, 1995, 1996, and 1998, KPMG interviewed both large and small firms. The Kaiser Family Foundation and the Health Research and Educational Trust have conducted the Employer Health Benefits Survey – for both small and large firms – annually since 1999.

## EXHIBIT M.1

## Selected Characteristics of Firms in the Survey Sample, 2002

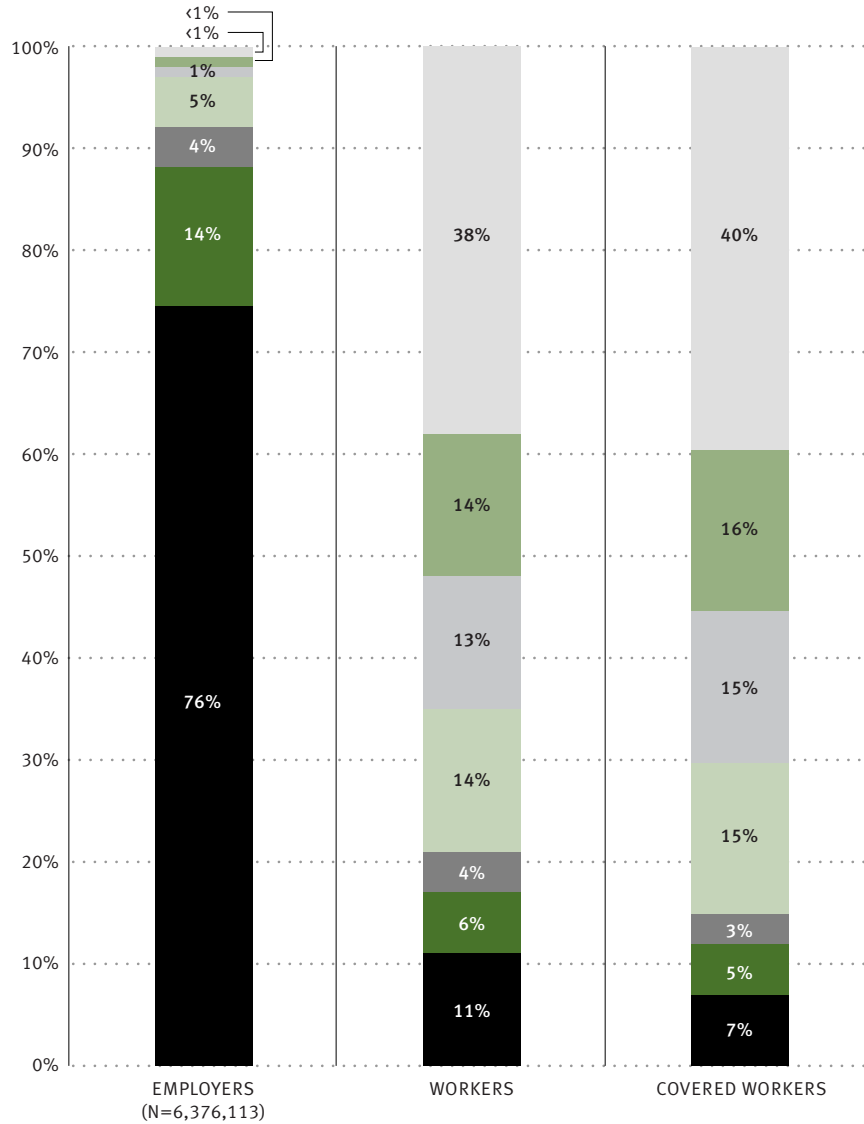
	<i>Sample Size</i>	<i>Sample Distribution After Weighting</i>	<i>Percentage of Total for Weighted Sample</i>
<b>INDUSTRY</b>			
Mining/Construction/Wholesale	208	1,321,846	20.7%
Manufacturing	268	365,740	5.7
Transportation/Utilities/Communication	106	239,878	3.8
Retail	200	1,183,551	18.6
Finance	140	443,629	7.0
Service	579	2,286,761	35.9
State/Local Government	343	50,799	0.8
Health Care	170	483,910	7.6
<b>ALL INDUSTRIES</b>	<b>2,014</b>	<b>6,376,113</b>	<b>100%</b>
<b>FIRM SIZE</b>			
Small (3-9 Workers)	219	4,857,937	76.2%
Small (10-24 Workers)	246	893,976	14.0
Small (25-49 Workers)	158	233,999	3.7
Small (50-199 Workers)	267	304,753	4.8
Midsize (200-999 Workers)	413	67,481	1.1
Large (1,000-4,999 Workers)	367	14,324	0.2
Jumbo (5,000+ Workers)	344	3,643	0.1
<b>ALL FIRM SIZES</b>	<b>2,014</b>	<b>6,376,113</b>	<b>100%</b>
<b>REGION</b>			
Northeast	445	1,404,850	22.0%
Midwest	537	1,416,507	22.2
South	668	2,206,115	34.6
West	364	1,348,641	21.2
<b>ALL REGIONS</b>	<b>2,014</b>	<b>6,376,113</b>	<b>100%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

EXHIBIT M.2

Distribution of Employers, Workers, and Workers Covered by Health Insurance, by Firm Size, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

- 3-9 WORKERS
- 10-24 WORKERS
- 25-49 WORKERS
- 50-199 WORKERS
- 200-999 WORKERS
- 1,000-4,999 WORKERS
- 5,000+ WORKERS



EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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# Cost of Health Insurance

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SECTION

1

## COST OF HEALTH INSURANCE

IN 2002, PREMIUMS FOR JOB-BASED HEALTH INSURANCE INCREASED BY 12.7%, A HIGHER RATE OF GROWTH THAN ANY YEAR SINCE 1990.<sup>4</sup> THIS IS THE SIXTH CONSECUTIVE YEAR THAT THE RATE OF INCREASE HAS GROWN FASTER THAN THE PREVIOUS YEAR. PREMIUM INCREASES IN 2002 EXCEEDED THE OVERALL RATE OF INFLATION BY ELEVEN PERCENTAGE POINTS (EXHIBIT 1.2).

INCREASING MEDICAL CLAIMS EXPENSES APPEAR TO BE THE PRIMARY DRIVER OF THE HIGH RATE OF PREMIUM GROWTH FOR JOB-BASED COVERAGE. PREMIUMS FOR INSURED PLANS ROSE AT ROUGHLY THE SAME RATE AS PREMIUM EQUIVALENTS FOR SELF-FUNDED PLANS, AN INDICATION THAT MEDICAL INFLATION RATHER THAN CATCH-UP PRICING ASSOCIATED WITH THE UNDERWRITING CYCLE DROVE PREMIUM INCREASES IN 2002. THE COST OF COVERAGE FOR A FAMILY OF FOUR IS NOW NEARLY \$8,000 PER YEAR. HMO COVERAGE REMAINS THE LOWEST COST HEALTH PLAN OPTION.

### PREMIUM INCREASES

- ▶ The cost of job-based health insurance rose by 12.7% from spring 2001 to spring 2002, up from 11% in 2001, 8.3% in 2000, and 4.8% in 1999, and the largest increase since 1990 (EXHIBIT 1.1).
  - All types of health plans experienced double-digit increases in costs. HMO premiums rose by 13.3%, indemnity premiums increased by 12.7%, PPO premiums grew by 12.7%, and POS premiums rose by 11.9% (EXHIBIT 1.1).
  - All small firms (3-199 workers) had increases of 13.2%, slightly exceeding those of large firms (200 or more workers) which rose by 12.5%. Firms with 10-24 workers experienced the largest increases on average, at 14.9% (EXHIBIT 1.3).
  - There was a wide range of growth in the cost of health insurance among the nation's firms. Twenty-one percent of employees work for a firm where premiums rose by 5% or less, while 16% of covered employees work for a firm where premiums rose by 15% to 20%. Seventeen percent of covered employees work for a firm where premiums increased by more than 20% (EXHIBIT 1.4).
  - Premiums rose by 13.2% for fully insured plans, whereas premium equivalents increased by 12.3% among self-insured plans (EXHIBIT 1.6). Increases in premium equivalents are a proxy measure of the growth in underlying medical claims. This is the smallest difference between fully and self-insured plans since 1997, an indication that "catch-up" pricing associated with the underwriting cycle is slowing (EXHIBIT 1.7). This suggests that the current round of inflation is driven by increases in underlying medical claims expenses.
  - Premium increases were similar across the nation, ranging from 12.5% in the South and Northeast to 13.2% in the Midwest (EXHIBIT 1.9).

#### NOTE :

<sup>4</sup> Data on premium increases reflect the cost of health insurance premiums for a family of four.

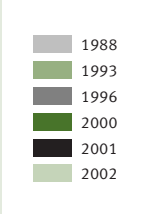
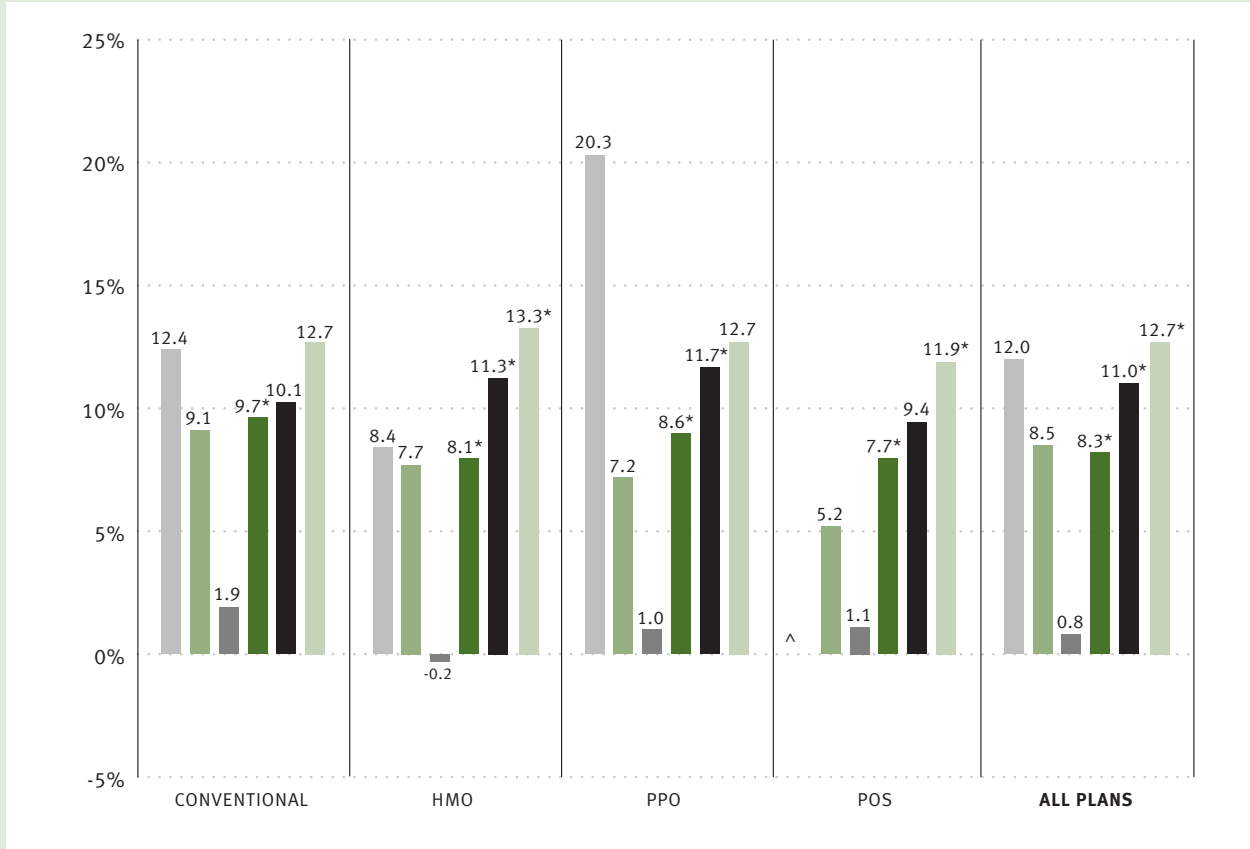


**MONTHLY PREMIUM COSTS OF SINGLE AND FAMILY COVERAGE**

- ▶ In 2002, average monthly premiums for single and family coverage (including worker and employer share of premium) are \$255 and \$663 respectively (EXHIBIT 1.11). The cost of family coverage is now nearly \$8,000 per year.
- Average monthly premiums for PPO plans, which cover most Americans, are \$260 for single coverage and \$670 for family coverage (EXHIBIT 1.13). HMOs remain the lowest cost plan at \$230 per month for single coverage and \$628 for family coverage. Conventional plans are the most expensive at \$298 for single and \$707 for family coverage.
- The proportion of covered workers in firms that pay more than \$250 per month for single coverage jumped from 21% in 2001 to 44% this year. In 2002, the proportion of covered workers in firms that pay \$650 or more for family coverage rose to 51% up from 22% in 2001 (EXHIBIT 1.12)
- The nation's smallest firms pay higher premiums for single coverage than any other firm size group – about \$30 more per month on average than other firms (EXHIBIT 1.13).
- As in previous years, the cost of coverage tends to be lowest in the West and highest in the Northeast (EXHIBIT 1.14).

EXHIBIT 1.1

Percentage Change in Health Insurance Premiums From Previous Year, by Plan Type, 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

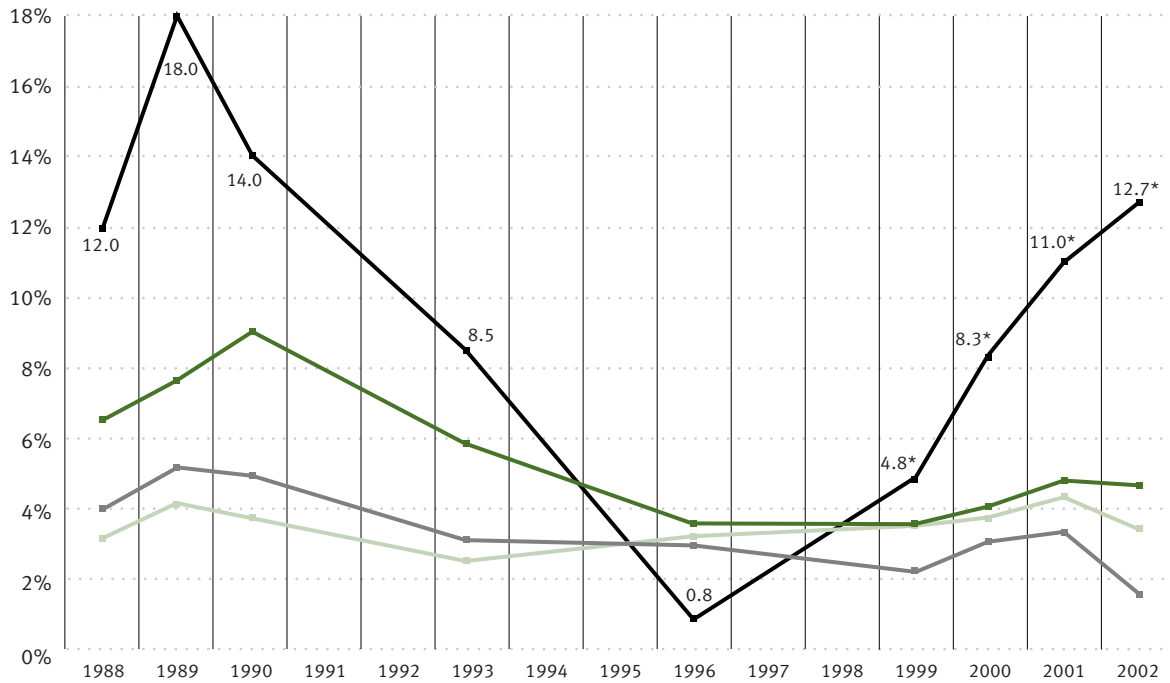
\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for POS plans in 1988.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

EXHIBIT 1.2

Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2002



1988	1989	1990	1993	1996	1999	2000	2001	2002	
12.0	18.0	14.0	8.5	0.8	4.8*	8.3*	11.0*	12.7*	HEALTH INSURANCE PREMIUMS
6.5	7.7	9.0	5.9	3.5	3.5	4.1	4.7	4.6	MEDICAL INFLATION
3.9	5.1	4.7	3.2	2.9	2.3	3.1	3.3	1.6	OVERALL INFLATION
3.1	4.1	3.7	2.5	3.3	3.5	3.7	4.3	3.4	WORKERS EARNINGS

SOURCE :

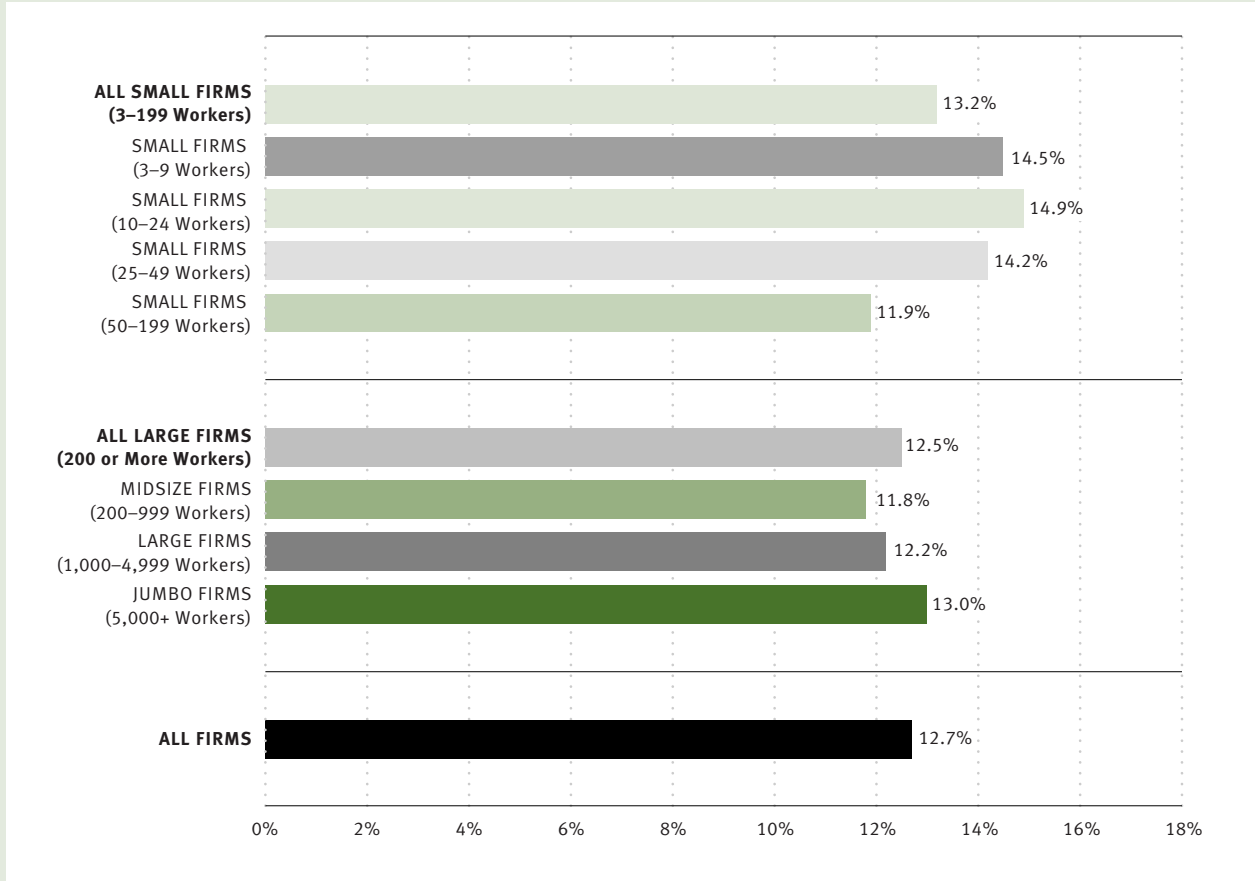
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index, US City Average of Annual Inflation (April to April), and Medical Inflation, 1988-2002; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1988-2002,

\* Estimate is statistically different from the previous year shown: 1996-1999, 1999-2000, 2000-2001, 2001-2002.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

EXHIBIT 1.3

Percentage Change in Premiums<sup>^</sup>, by Firm Size, 2002\*



SOURCE :

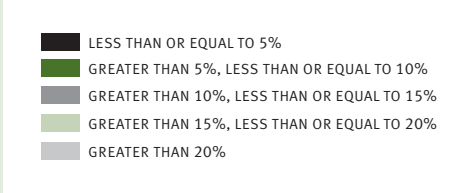
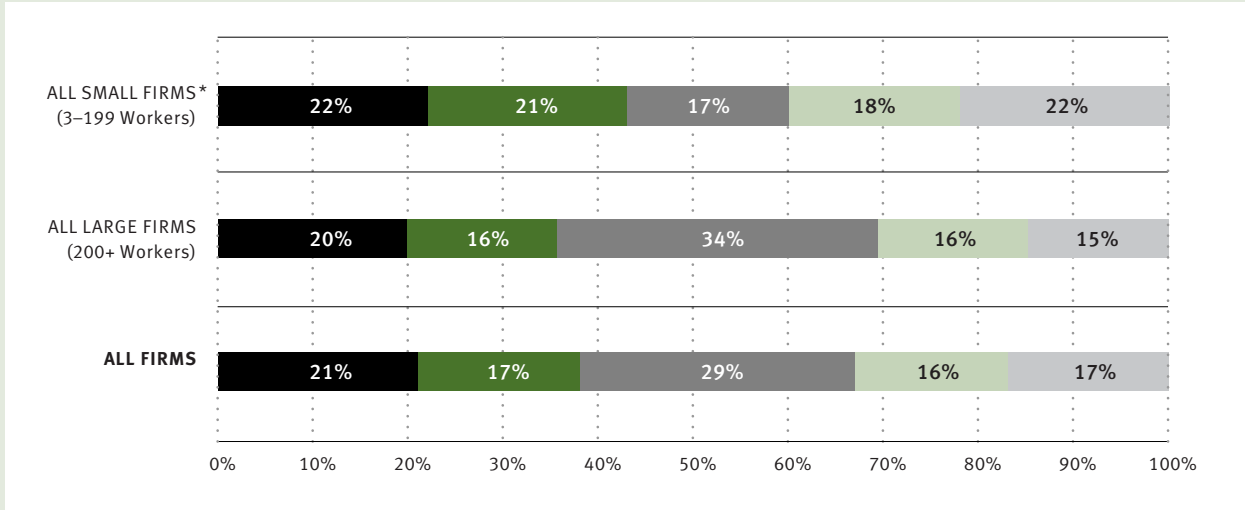
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different estimates from All Firms.

<sup>^</sup> Applies to employer and employee share of premiums.

EXHIBIT 1.4

Distribution of Premium Increases, by Firm Size, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.

## EXHIBIT 1.5

## Percentage Change in Premiums, by Firm Size and Plan Type, 2002

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
<b>FIRM SIZE</b>					
Small (3-9 Workers)	NSD	NSD	15.4%	12.3%	14.5%
Small (10-24 Workers)	NSD	12.1%	14.1	17.8*	14.9
Small (25-49 Workers)	NSD	10.3	15.9	12.3	14.2
Small (50-199 Workers)	NSD	16.4	11.1	10.6	11.9
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>15.8</b>	<b>14.3</b>	<b>12.9</b>	<b>12.5</b>	<b>13.2</b>
Midsize (200-999 Workers)	12.2%	13.3%	10.8%	12.9%	11.8%
Large (1,000-4,999 Workers)	13.6	14.5	11.3	11.2	12.2
Jumbo (5,000+ Workers)	10.7	12.4	14.2	11.3	13.0
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>11.5</b>	<b>13.0</b>	<b>12.7</b>	<b>11.6</b>	<b>12.5</b>
<b>ALL FIRM SIZES</b>	<b>12.7%</b>	<b>13.3%</b>	<b>12.7%</b>	<b>11.9%</b>	<b>12.7%</b>

## SOURCE :

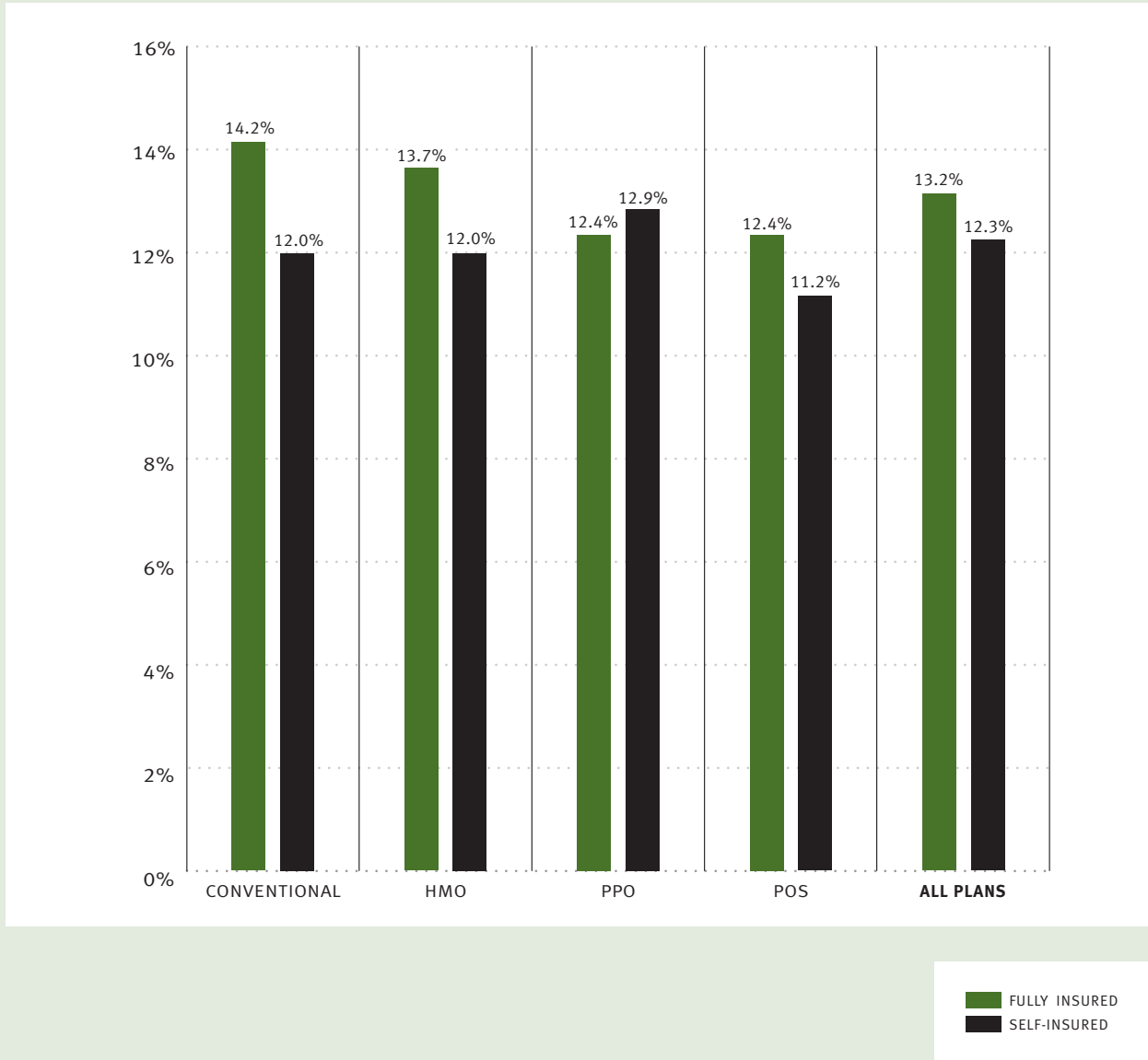
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms within a plan type.

NSD: Not sufficient data.

EXHIBIT 1.6

Premium Increases, by Plan Type and Funding Arrangement, 2002\*



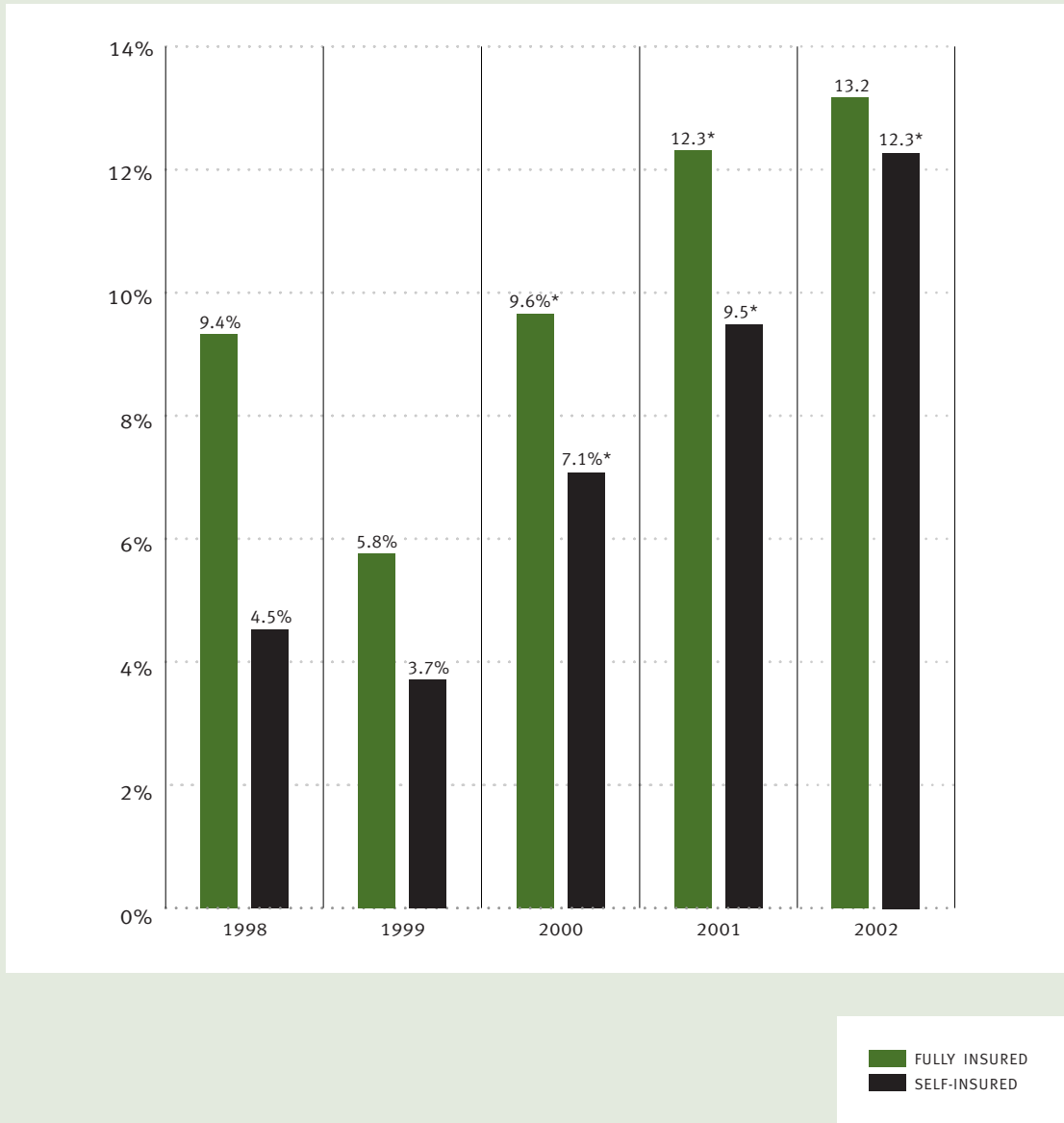
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different estimates between Fully Insured and Self-Insured within a plan type.

EXHIBIT 1.7

Premium Increases, by Funding Arrangement, 1998-2002



SOURCE :

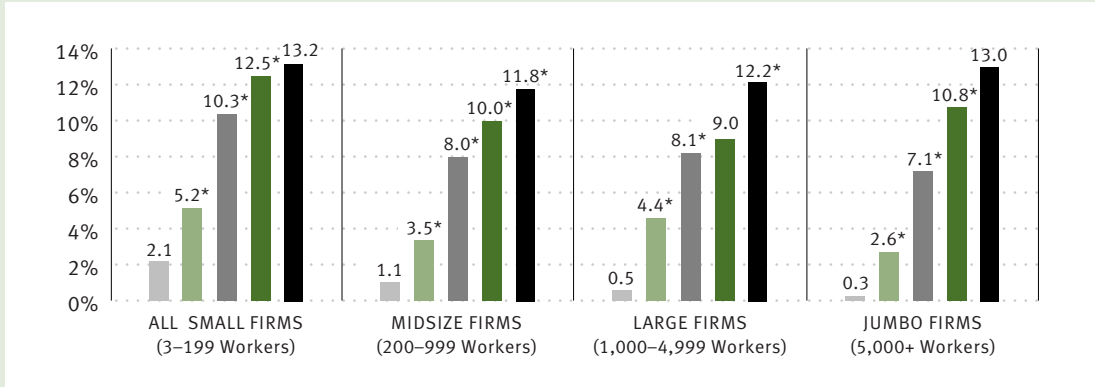
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1998.

\* Estimate is statistically different from previous year shown within the type of funding arrangements: 1999-2000, 2000-2001, 2001-2002.



EXHIBIT 1.8

Premium Increases, by Firm Size, 1996-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

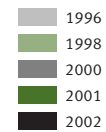
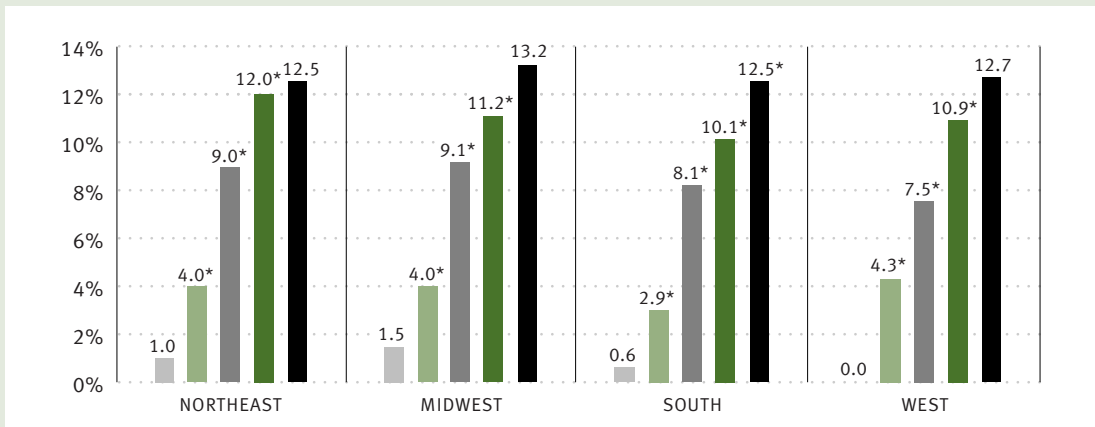


EXHIBIT 1.9

Premium Increases, by Region, 1996-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

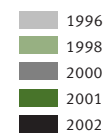
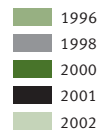
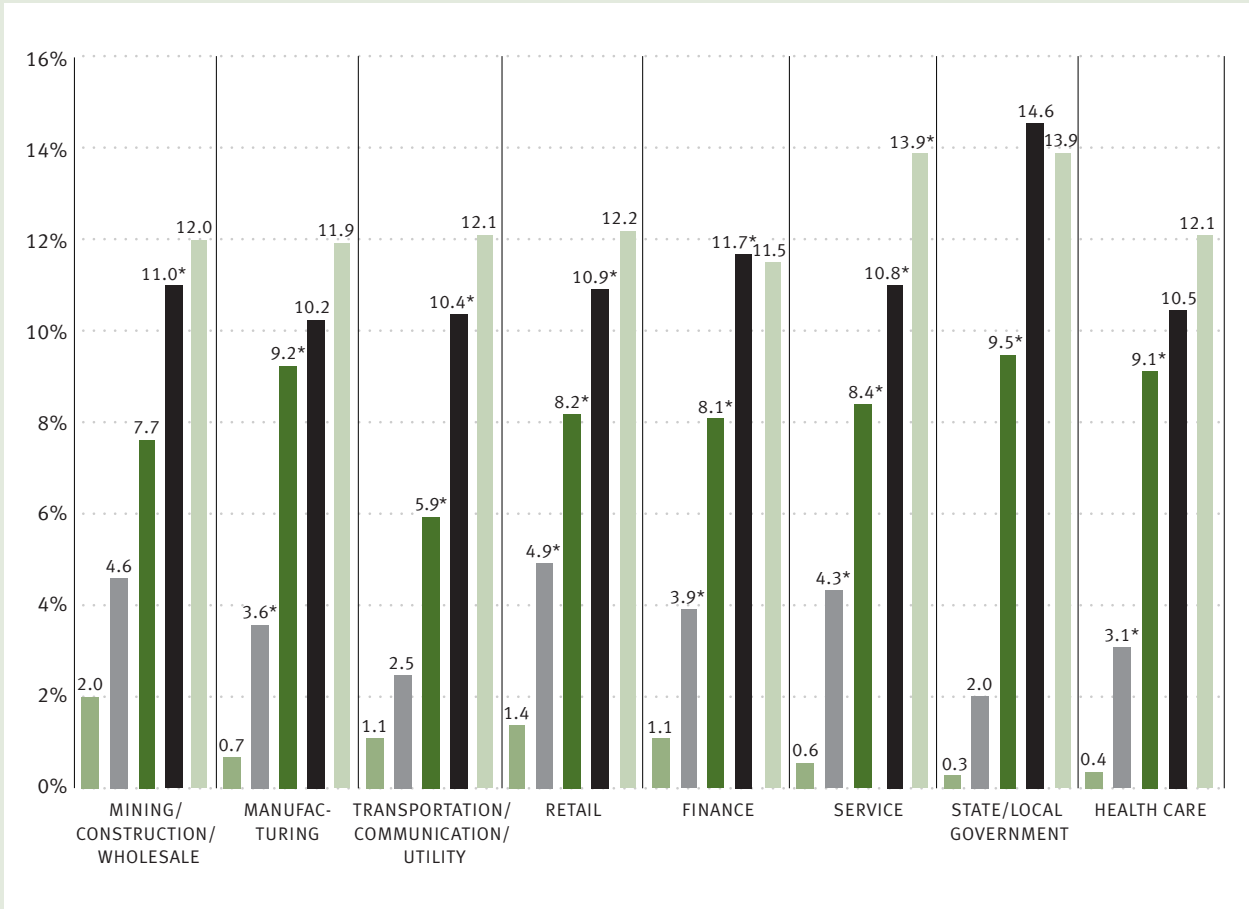


EXHIBIT 1.10

Premium Increases, by Industry, 1996-2002



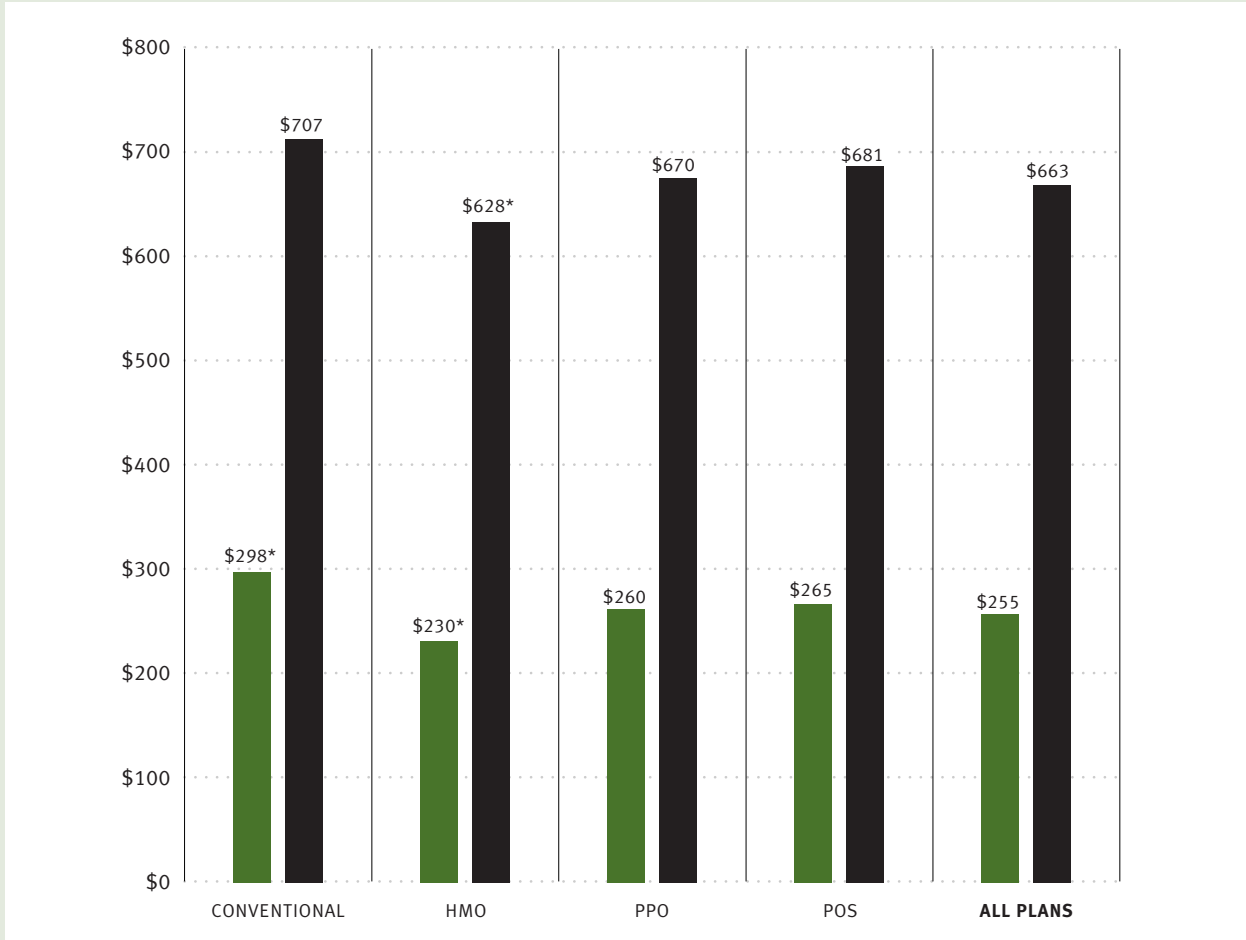
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

EXHIBIT 1.11

Average Monthly Premium Costs for Covered Workers, Single and Family Coverage, by Plan Type, 2002



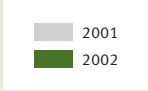
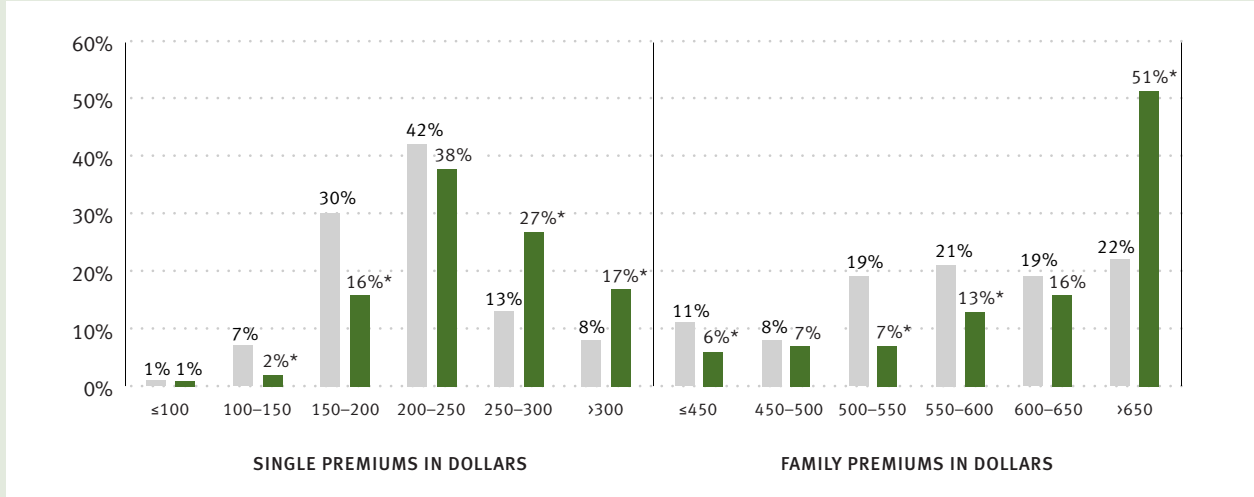
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Plans by coverage type.

EXHIBIT 1.12

Distribution of Single and Family Premiums for Covered Workers, 2001 and 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001, 2002.

\*Estimate is statistically different from the previous year.

EXHIBIT 1.13

Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans,  
by Firm Size, 2002

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
Small (3-9 Workers)	NSD	NSD	NSD	NSD
Small (10-24 Workers)	NSD	NSD	NSD	NSD
Small (25-49 Workers)	NSD	NSD	NSD	NSD
Small (50-199 Workers)	NSD	NSD	NSD	NSD
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>\$313</b>	<b>\$708</b>	<b>\$3,761</b>	<b>\$ 8,502</b>
Midsize (200-999 Workers)	340	855	4,082	10,263
Large (1,000-4,999 Workers)	277	713	3,325	8,553
Jumbo (5,000+ Workers)	276	637	3,308	7,647
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>293</b>	<b>706</b>	<b>3,514</b>	<b>8,470</b>
<b>ALL FIRM SIZES</b>	<b>\$298</b>	<b>\$707</b>	<b>\$3,582</b>	<b>\$ 8,479</b>
<b>HMO PLANS</b>				
Small (3-9 Workers)	NSD	NSD	NSD	NSD
Small (10-24 Workers)	\$274*	\$629	\$3,290*	\$ 7,552
Small (25-49 Workers)	217	635	2,602	7,619
Small (50-199 Workers)	216	570*	2,594	6,844*
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>234</b>	<b>606</b>	<b>2,805</b>	<b>7,274</b>
Midsize (200-999 Workers)	224	613	2,686	7,353
Large (1,000-4,999 Workers)	234	645	2,805	7,734
Jumbo (5,000+ Workers)	229	637	2,750	7,641
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>229</b>	<b>635</b>	<b>2,752</b>	<b>7,618</b>
<b>ALL FIRM SIZES</b>	<b>\$230</b>	<b>\$628</b>	<b>\$2,764</b>	<b>\$ 7,541</b>
<b>PPO PLANS</b>				
Small (3-9 Workers)	\$276	\$614	\$3,317	\$ 7,372
Small (10-24 Workers)	277	655	3,324	7,859
Small (25-49 Workers)	248	659	2,974	7,904
Small (50-199 Workers)	252	663	3,021	7,952
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>260</b>	<b>651</b>	<b>3,124</b>	<b>7,814</b>
Midsize (200-999 Workers)	273*	701*	3,271*	8,417*
Large (1,000-4,999 Workers)	255	683	3,058	8,194
Jumbo (5,000+ Workers)	256	667	3,075	7,999
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>260</b>	<b>679</b>	<b>3,117</b>	<b>8,143</b>
<b>ALL FIRM SIZES</b>	<b>\$260</b>	<b>\$670</b>	<b>\$3,119</b>	<b>\$ 8,037</b>

Continued on page 26

EXHIBIT 1.13 Continued from page 25

### Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2002

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>POS PLANS</b>				
Small (3-9 Workers)	\$293	\$637	\$3,522	\$7,646
Small (10-24 Workers)	245	683	2,937	8,195
Small (25-49 Workers)	230*	658	2,755*	7,897
Small (50-199 Workers)	263	642	3,154	7,701
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>264</b>	<b>650</b>	<b>3,167</b>	<b>7,798</b>
Midsize (200-999 Workers)	260	690	3,117	8,278
Large (1,000-4,999 Workers)	280	739	3,356	8,863
Jumbo (5,000+ Workers)	261	686	3,133	8,227
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>265</b>	<b>698</b>	<b>3,179</b>	<b>8,379</b>
<b>ALL FIRM SIZES</b>	<b>\$265</b>	<b>\$681</b>	<b>\$3,175</b>	<b>\$8,173</b>
<b>ALL PLANS</b>				
Small (3-9 Workers)	\$285	\$633	\$3,419	\$7,599
Small (10-24 Workers)	269	661	3,233	7,938
Small (25-49 Workers)	239	649	2,867	7,791
Small (50-199 Workers)	247	644	2,969	7,723
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>258</b>	<b>645</b>	<b>3,100</b>	<b>7,737</b>
Midsize (200-999 Workers)	265	691*	3,176	8,290*
Large (1,000-4,999 Workers)	254	682	3,046	8,189
Jumbo (5,000+ Workers)	249	659	2,992	7,902
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>254</b>	<b>671</b>	<b>3,042</b>	<b>8,047</b>
<b>ALL FIRM SIZES</b>	<b>\$255</b>	<b>\$663</b>	<b>\$3,060</b>	<b>\$7,954</b>

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms within a plan type.

NSD: Not sufficient data.

EXHIBIT 1.14

### Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Region, 2002

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
Northeast	\$311	\$850	\$3,736	\$10,202
Midwest	284	669	3,407	8,024
South	262*	655	3,142*	7,861
West	373	722	4,478	8,662
<b>ALL REGIONS</b>	<b>\$298</b>	<b>\$707</b>	<b>\$3,582</b>	<b>\$8,479</b>
<b>HMO PLANS</b>				
Northeast	\$247*	\$666*	\$2,960*	\$7,988*
Midwest	237	650	2,839	7,799
South	225	611	2,698	7,327
West	212	587	2,546	7,046
<b>ALL REGIONS</b>	<b>\$230</b>	<b>\$628</b>	<b>\$2,764</b>	<b>\$7,541</b>
<b>PPO PLANS</b>				
Northeast	\$274	\$754*	\$3,287	\$9,045*
Midwest	254	663	3,044	7,951
South	257	640*	3,088	7,684*
West	261	659	3,131	7,912
<b>ALL REGIONS</b>	<b>\$260</b>	<b>\$670</b>	<b>\$3,119</b>	<b>\$8,037</b>
<b>POS PLANS</b>				
Northeast	\$269	\$739*	\$3,224	\$8,873*
Midwest	256	689	3,075	8,270
South	271	651	3,254	7,811
West	252	606*	3,021	7,269*
<b>ALL REGIONS</b>	<b>\$265</b>	<b>\$681</b>	<b>\$3,175</b>	<b>\$8,173</b>
<b>ALL PLANS</b>				
Northeast	\$266*	\$728*	\$3,193*	\$8,740*
Midwest	253	664	3,036	7,962
South	253	636*	3,031	7,631*
West	247	626*	2,961	7,516*
<b>ALL REGIONS</b>	<b>\$255</b>	<b>\$663</b>	<b>\$3,060</b>	<b>\$7,954</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Regions within a plan type.

## EXHIBIT 1.15

## Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2002

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
Mining/Construction/Wholesale	NSD	NSD	NSD	NSD
Manufacturing	\$283	\$579	\$3,393	\$6,952
Transportation/Communication/Utility	NSD	NSD	NSD	NSD
Retail	NSD	NSD	NSD	NSD
Finance	NSD	NSD	NSD	NSD
Service	317	749	3,807	8,985
State/Local Government	287	728	3,446	8,736
Health Care	NSD	NSD	NSD	NSD
<b>ALL INDUSTRIES</b>	<b>\$298</b>	<b>\$707</b>	<b>\$3,582</b>	<b>\$8,479</b>
<b>HMO PLANS</b>				
Mining/Construction/Wholesale	\$225	\$608	\$2,695	\$7,297
Manufacturing	216*	620	2,594*	7,438
Transportation/Communication/Utility	233	627	2,796	7,527
Retail	229	619	2,748	7,432
Finance	232	639	2,782	7,672
Service	229	608	2,749	7,301
State/Local Government	249	666	2,982	7,989
Health Care	236	644	2,831	7,731
<b>ALL INDUSTRIES</b>	<b>\$230</b>	<b>\$628</b>	<b>\$2,764</b>	<b>\$7,541</b>
<b>PPO PLANS</b>				
Mining/Construction/Wholesale	\$239*	\$649	\$2,873*	\$7,785
Manufacturing	243*	663	2,914*	7,955
Transportation/Communication/Utility	273	729*	3,272	8,750*
Retail	226*	623*	2,707*	7,476*
Finance	270	689	3,240	8,269
Service	283*	675	3,393*	8,097
State/Local Government	265	660	3,177	7,926
Health Care	274	720	3,288	8,637
<b>ALL INDUSTRIES</b>	<b>\$260</b>	<b>\$670</b>	<b>\$3,119</b>	<b>\$8,037</b>

Continued on page 29



EXHIBIT 1.15 Continued from page 28

## Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2002

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>POS PLANS</b>				
Mining/Construction/Wholesale	\$260	\$653	\$3,126	\$7,839
Manufacturing	253	699	3,041	8,385
Transportation/Communication/Utility	292	661	3,509	7,931
Retail	236*	640	2,836*	7,679
Finance	266	731*	3,189	8,775*
Service	261	677	3,130	8,126
State/Local Government	265	688	3,175	8,252
Health Care	309	704	3,705	8,452
<b>ALL INDUSTRIES</b>	<b>\$265</b>	<b>\$681</b>	<b>\$3,175</b>	<b>\$8,173</b>
<b>ALL PLANS</b>				
Mining/Construction/Wholesale	\$242	\$647	\$2,904	\$7,766
Manufacturing	239*	650	2,867*	7,798
Transportation/Communication/Utility	267	683	3,209	8,192
Retail	230*	625*	2,764*	7,499*
Finance	263	699	3,155	8,386
Service	268	663	3,216	7,960
State/Local Government	261	670	3,126	8,038
Health Care	271	696	3,248	8,348
<b>ALL INDUSTRIES</b>	<b>\$255</b>	<b>\$663</b>	<b>\$3,060</b>	<b>\$7,954</b>

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Industries within a plan type.

NSD: Not sufficient data.



EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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Health  
Benefits  
Offer Rates

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SECTION

2

## HEALTH BENEFITS OFFER RATES

SURVEY RESULTS FOR 2002 SUGGEST THAT THE BRIEF PERIOD OF EXPANDING HEALTH COVERAGE AMONG SMALL FIRMS APPEARS TO HAVE COME TO AN END. NO DOUBT HAMPERED BY THE STRUGGLING ECONOMY AND A SECOND YEAR OF DOUBLE-DIGIT PREMIUM INCREASES, THE NUMBER OF SMALL FIRMS OFFERING COVERAGE TO THEIR WORKERS FELL SLIGHTLY, FROM 67% IN 2000 TO 61% IN 2002 ( $P < 0.1$ ). THE CHANGE BETWEEN 2000 AND 2002, HOWEVER, IS ONLY RELIABLE AT THE 90% CONFIDENCE LEVEL (LIKELY TO BE TRUE NINE TIMES OUT OF TEN), AND SO IS LESS ROBUST THAN OTHER CHANGES REPORTED IN THIS YEAR'S SURVEY.

NEARLY ALL LARGE BUSINESSES (THOSE WITH 200 OR MORE WORKERS) OFFER HEALTH INSURANCE TO THEIR EMPLOYEES, BUT SMALLER BUSINESSES, ESPECIALLY VERY SMALL FIRMS OR 'MOM AND POP SHOPS' WITH 3-9 WORKERS, REMAIN MUCH LESS LIKELY TO DO SO. IF THE ECONOMY EXPERIENCES A SLOW RECOVERY AND HEALTH INSURANCE PREMIUMS CONTINUE TO ESCALATE, THE PERCENTAGE OF SMALL FIRMS THAT OFFER COVERAGE TO THEIR WORKERS MAY DECLINE FURTHER.

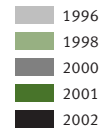
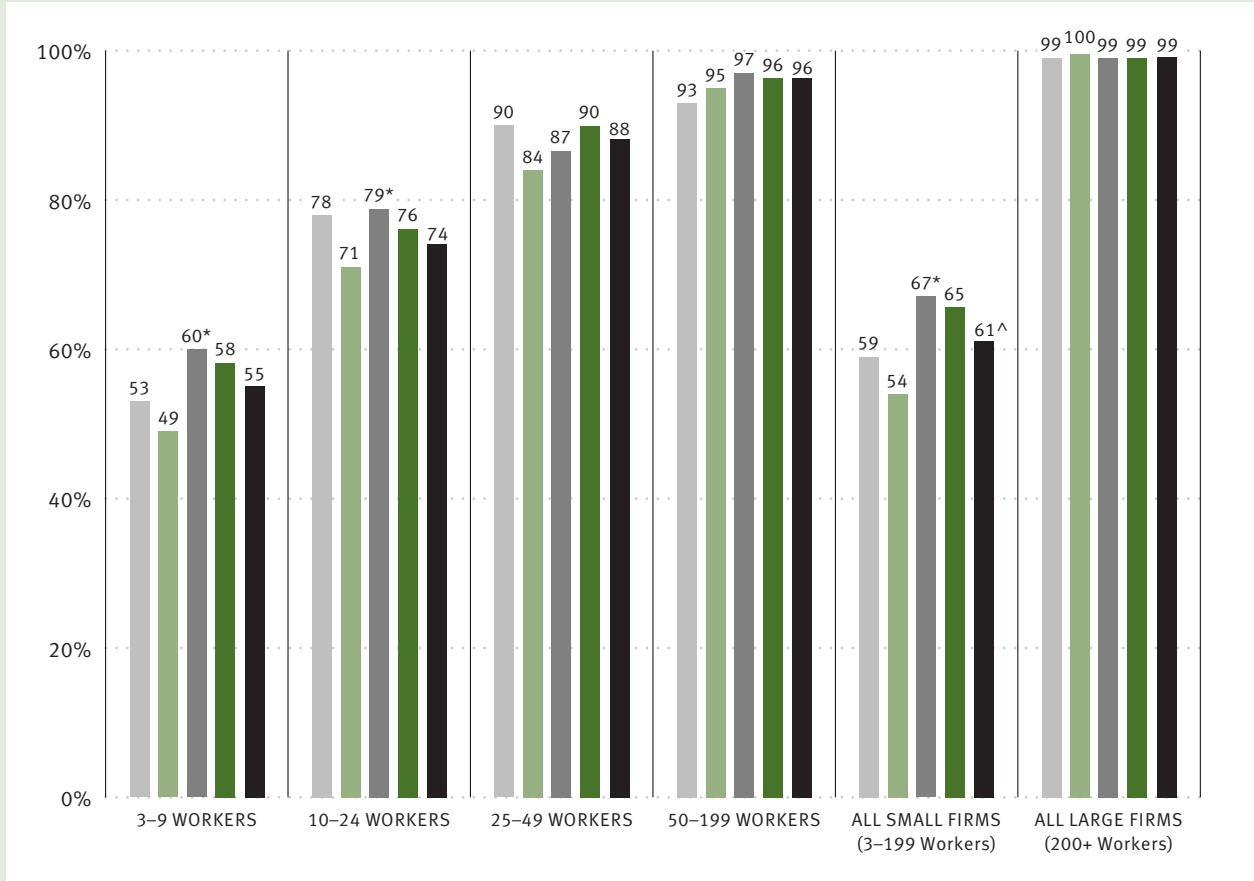
- ▶ The percentage of small firms (3-199 workers) offering health insurance to employees increased from 54% in 1998 to 67% in 2000, but is now on the decline, dropping to 61% this year ( $p < 0.1$ ) (EXHIBIT 2.1).
- ▶ The likelihood that a firm offers health benefits to its workers varies considerably by the demographic characteristics of the firm, such as firm size, the proportion of part-time workers in the firm, unionization, and the average age of the workforce.
  - *The smallest firms are least likely to offer health insurance. Only 55% of firms with 3-9 workers offer coverage in 2002, but that figure jumps to 74% for firms with 10-24 employees and 88% for companies with 25-49 employees. Among firms with 50 or more employees, nearly all offer coverage (EXHIBIT 2.1).*
  - *Firms with many part-time workers – where 35% or more workers work part-time – are also less likely to provide coverage to their employees. Among these heavily part-time firms only 38% offer health insurance, in contrast to 64% of firms with fewer part-time workers (EXHIBIT 2.3).*
  - *Firms that employ union workers are significantly more likely than average to offer coverage to their workers, with 92% offering coverage. In contrast, only 57% of firms that do not have union employees offer health insurance (EXHIBIT 2.3).*
- ▶ In this era of rapidly rising health care premiums, it is not surprising that cost continues to be the most important factor cited by small employers as the reason they do not offer health insurance (EXHIBIT 2.4).
  - *68% of small firms (3-199 workers) that do not offer coverage cite high premiums as a very important reason for not doing so.*

- *Other factors cited as important by many small employers include: employees are covered elsewhere (37% say it's very important this year compared to 56% in 2001); the company can attract good employees without offering health insurance (21% say it's very important this year compared to 30% in 2001); and the administrative hassle is too great (17% say it's very important this year compared to 22% in 2001).*
- *In 2002, small firms were significantly more likely to point to problems obtaining coverage as a reason they do not offer health insurance. In 2002, 34% of small firms not offering health insurance coverage cite the fact that they could not qualify for group rates as a very important reason they do not offer coverage, up from 22% last year. In the same vein, 16% of small firms this year say that a very important reason they do not offer health insurance is that the firm is too newly established, compared to 6% last year.*
- ▶ *Rapidly increasing premiums have generated further speculation that employers may move to new types of health insurance arrangements in order to help control future costs. One such option is a defined contribution approach – where (in the extreme) employees are given cash to buy health insurance on their own rather than selecting among plans the employer contracts for. Another approach, Medical Savings Accounts (MSAs), are arrangements where the employer combines a health insurance plan with a high deductible (of up to several thousand dollars) with a contribution to a tax-free account that can be used towards routine health expenses.*

As in previous years, however, most firms say they are not likely to move to a defined contribution approach for health benefits. This year most firms also report that they do not think their employees would find defined contribution or MSA options more attractive than the company's current health insurance arrangement (EXHIBITS 2.5, 2.6).
- *Despite a growing number of anecdotal reports that employers are considering a move to defined contribution, only 6% of firms say it is very likely and 17% say it is somewhat likely they will move to a defined contribution approach in the next five years. Employers are also unlikely to think workers would find the defined contribution approach much more attractive than their current benefits package – only 7% of firms say workers would find a defined contribution approach much more attractive and 20% responded it might be somewhat more attractive (EXHIBIT 2.5).*
- *Employers are somewhat more likely to say they think employees would find a Medical Savings Account option attractive. Eight percent of firms think workers would find the MSA option much more attractive and 24% somewhat more attractive than the health insurance arrangement currently offered (EXHIBIT 2.6).*

EXHIBIT 2.1

Percentage of Firms Offering Health Benefits, by Firm Size, 1996-2002



SOURCE :

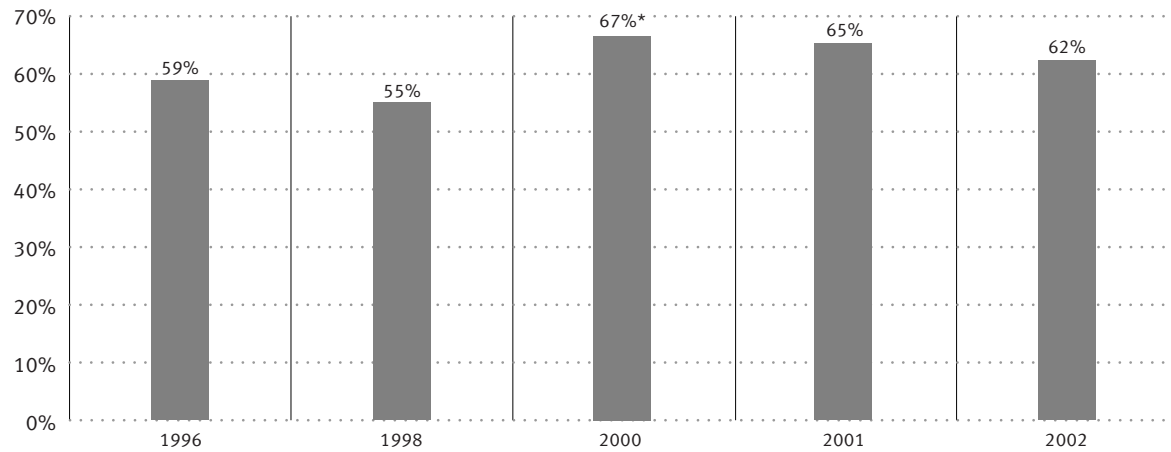
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

^ Estimate is statistically different from the previous year shown at  $p < 0.1$ : 2000-2002.

## EXHIBIT 2.2

## Percentage of All Firms Offering Health Benefits, 1996-2002



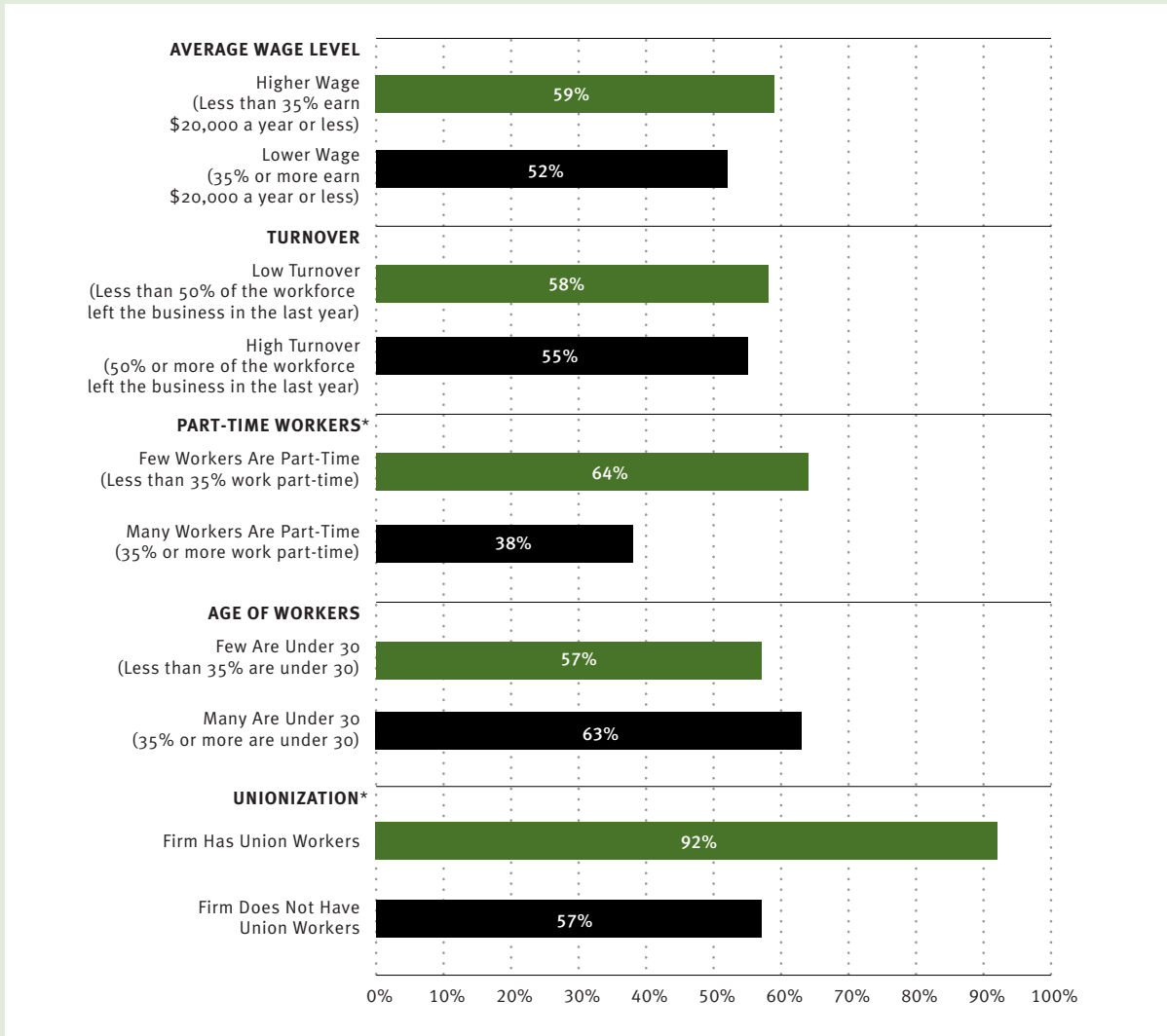
## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000,  
2000-2001, 2001-2002.

EXHIBIT 2.3

Percentage of All Firms Offering Health Benefits, by Firm Characteristics, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from each other within categories.

Note: These estimates include only firms that answered the full survey. Therefore, the All Firm offer rate estimate is different from that presented in Exhibit 3.2 (58% vs. 62%). The two estimates are not statistically different.



## EXHIBIT 2.4

## All Small Firms' (3-199 Workers) Reasons for Not Offering Health Benefits, 2002

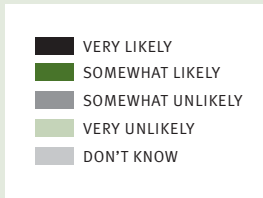
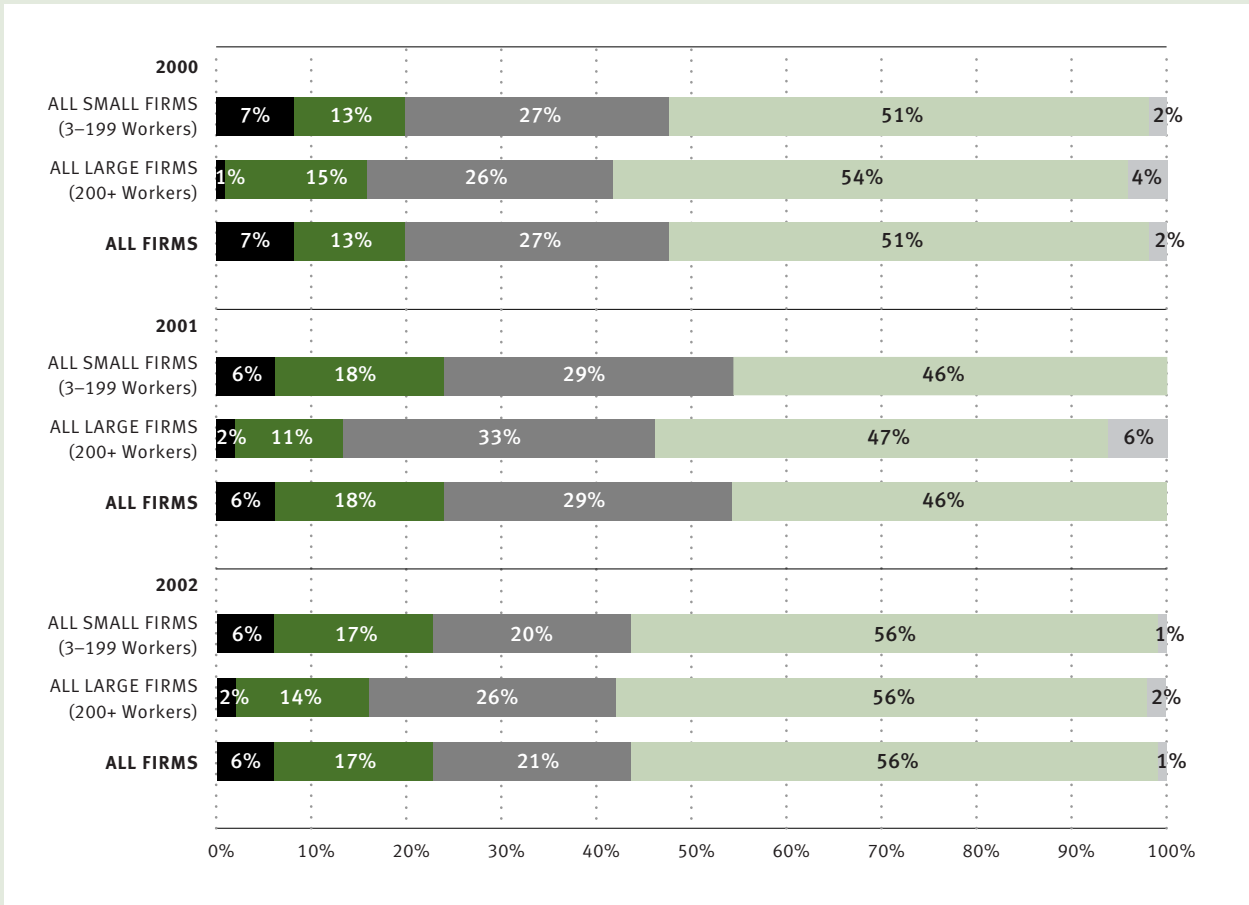
	<i>Very Important</i>	<i>Somewhat Important</i>	<i>Not Too Important</i>	<i>Not At All Important</i>	<i>Don't Know</i>
<b>HIGH PREMIUMS</b>	68%	16%	2%	14%	0%
<b>EMPLOYEES COVERED ELSEWHERE</b>	37%	23%	14%	25%	2%
<b>HIGH TURNOVER</b>	9%	15%	25%	52%	0%
<b>COMPANY CAN'T QUALIFY FOR GROUP RATES</b>	34%	11%	15%	31%	9%
<b>OBTAIN GOOD EMPLOYEES WITHOUT OFFERING A HEALTH PLAN</b>	21%	37%	16%	23%	3%
<b>ADMINISTRATIVE HASSLE</b>	17%	22%	30%	31%	0%
<b>FIRM TOO NEWLY ESTABLISHED</b>	16%	12%	4%	68%	0%

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

EXHIBIT 2.5

Likelihood of Employers Switching to Defined Contribution for Health Benefits in the Next Five Years, by Firm Size, 2000, 2001 and 2002\*



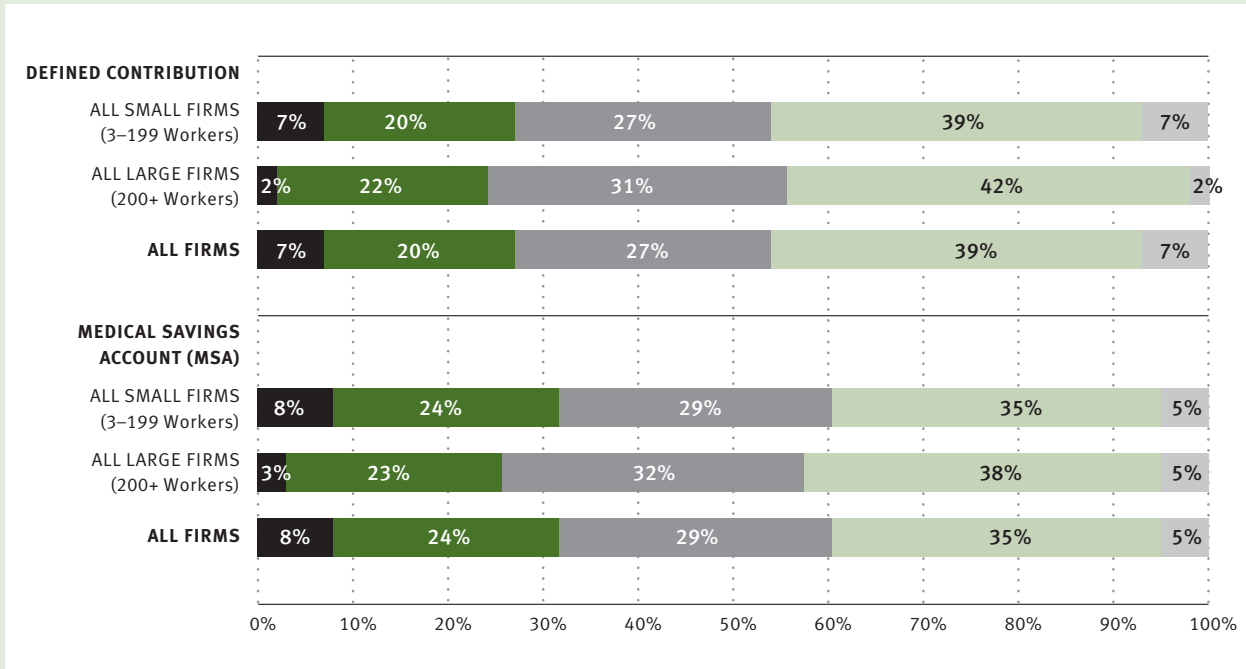
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002.

\* Tests found no statistically different distribution from All Firms by year.

EXHIBIT 2.6

Employer Perceptions of How Attractive Defined Contribution and Medical Savings Accounts Would Be to Employees, by Firm Size, 2002\*



MUCH MORE ATTRACTIVE  
 SOMEWHAT MORE ATTRACTIVE  
 SOMEWHAT LESS ATTRACTIVE  
 MUCH LESS ATTRACTIVE  
 DON'T KNOW

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distribution from All Firms by category.



EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

---

Employee  
Coverage,  
Eligibility, and  
Participation

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SECTION

3

## EMPLOYEE COVERAGE, ELIGIBILITY, AND PARTICIPATION

EMPLOYERS ARE THE PRIMARY SOURCE OF HEALTH INSURANCE IN THE US, COVERING 62% OF THEIR EMPLOYEES (INCLUDING BOTH FULL AND PART-TIME) (EXHIBIT 3.1). WHILE OTHER WORKERS MAY HAVE COVERAGE THROUGH THEIR SPOUSE'S JOB, MANY DO NOT HAVE THAT OPTION. CENSUS BUREAU ESTIMATES REPORT THAT NEARLY ONE IN FIVE WORKERS IS UNINSURED.<sup>5</sup>

THE PRIMARY REASON WORKERS ARE UNINSURED IS BECAUSE THEIR EMPLOYERS DO NOT OFFER HEALTH BENEFITS, PARTICULARLY IN SMALL BUSINESSES. YET, EVEN IN BUSINESSES THAT OFFER COVERAGE, SOME UNINSURED EMPLOYEES ARE INELIGIBLE FOR THAT COVERAGE OR DO NOT SIGN UP BECAUSE THEY MUST PAY A SIGNIFICANT SHARE OF THE PREMIUM.

- ▶ Among firms offering health benefits, 67% of workers are covered by their firm's health plan, similar to last year (EXHIBIT 3.2).
  - Coverage rates do not differ significantly by firm size, but do vary by industry, likely due to differences in eligibility. The coverage rate for workers in the retail industry is 40%, compared to coverage rates of 88% for state and local government workers and 79% for those working in the transportation, communication and utility industries (EXHIBIT 3.3).
- ▶ Not all employees are eligible for their firm's health benefits and not all who are eligible choose to participate in them. The number of workers covered is a product of both the percentage of workers who are actually eligible for the firm's health insurance and the percentage who choose to "take-up" (i.e., elect to participate in) the benefit (EXHIBIT 3.3).
  - Among firms offering health benefits, 83% of all small firms' (3-199 workers) employees and 78% of large firms' (200 or more workers) employees are eligible for health benefits, unchanged from last year.
- Participation (the take-up rate) is high across all firm sizes, averaging 84%.
  - Workers in small firms (with 10-24 employees) have a lower than average take-up rate (77%), as do retail firms at 78%. Take-up rates are higher for firms in transportation, communication and utilities (89%) and for state and local governments (95%).
  - A large majority (77%) of eligible workers in low-wage firms – where 35% or more of the firm's workers make \$20,000 a year or less – participate in their company's health benefits, although this is lower than the take-up rate among workers in high-wage firms (86%).

### NOTE:

<sup>5</sup> Census Bureau estimates based on the March 2001 Current Population Survey.

- ▶ Two-thirds of firms say they believe that workers decline health insurance offered by the firm because they have coverage elsewhere (66%). Fourteen percent say employees don't elect coverage because they cannot afford the employee share of costs (EXHIBIT 3.5).
- ▶ This year shows little change in eligibility for health benefits for part-time workers (EXHIBITS 3.6, 3.7).
  - *Forty-eight percent of workers are in firms where part-time workers are eligible for health benefits, similar to last year (49%). Consistent with the 2001 survey, part-time workers in large firms (200 or more workers) are nearly twice as likely to work for firms that make them eligible for health coverage (57%) than part-time workers employed by small firms (3-199 workers) (26%).*
- ▶ The percentage of workers in firms where temporary workers are eligible for health benefits remains low (9%) (EXHIBITS 3.6, 3.7).
- ▶ Some new employees may not have worked long enough in a firm to qualify for health benefits. Average waiting periods for health coverage range from 1.2 months in jumbo firms (5,000 or more workers) to 4.1 months in small firms (3-9 workers) (EXHIBIT 3.8).
- ▶ In 2002, firms report that over the course of the year, COBRA covers 2% of former employees – roughly 4.0 million workers and their dependents.

## EXHIBIT 3.1

Percentage of Workers Covered by Their Employer's Health Benefits, in Firms Both Offering and Not Offering Health Benefits, by Firm Size, 1996-2002\*

	1996	1998	2000	2001	2002
<b>FIRM SIZE</b>					
3-9 Workers	36%	31%	41%	41%	39%
10-24 Workers	52	43	56	54	49
25-49 Workers	66	55	64	63	56
50-199 Workers	64	63	65	69	67
200-999 Workers	N/A	N/A	70	71	68
1,000-4,999 Workers	N/A	N/A	68	69	69
5,000+ Workers	N/A	N/A	62	63	65
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>52%</b>	<b>47%</b>	<b>57%</b>	<b>59%</b>	<b>54%</b>
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>N/A</b>	<b>N/A</b>	<b>64%</b>	<b>66%</b>	<b>67%</b>
<b>ALL FIRMS</b>	<b>N/A</b>	<b>N/A</b>	<b>62%</b>	<b>63%</b>	<b>62%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Surveys of Employer-Sponsored Health Benefits: 1996, 1998.

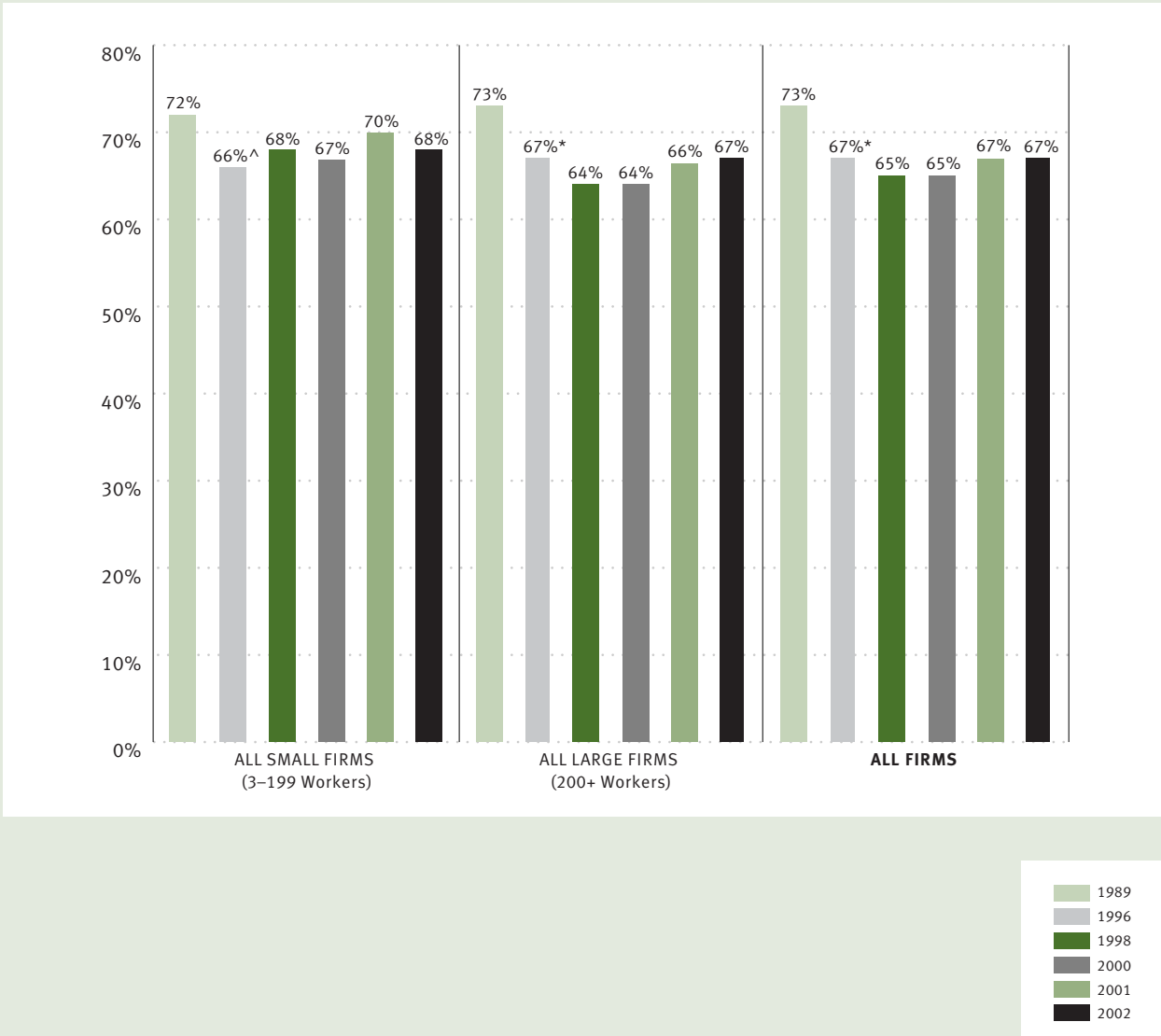
\* Tests found no statistically different estimates from the previous year shown:  
2000-2001, 2001-2002.

N/A: Large firms not offering health benefits were not surveyed in 1996 and 1998.



EXHIBIT 3.2

Percentage of Workers in Firms Offering Health Benefits Who Are Covered by Their Employer's Health Plan, by Firm Size, 1989-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1989, 1996, 1998.

\* Estimate is statistically different from the previous years shown: 1989-1996, 1996-1998, 1998-2000, 2000-2001, 2001-2002.

<sup>^</sup> Estimate is statistically different from the previous year shown at  $p < 0.10$ .

## EXHIBIT 3.3

## Eligibility, Take-Up Rates, and Coverage, by Firm Size, Region, and Industry, 2002

	<i>Percentage of Workers Eligible for Health Insurance</i>	<i>Percentage of Workers Who Participate (Take-Up Rate)</i>	<i>Percentage of Workers Covered by Health Insurance</i>
<b>FIRM SIZE</b>			
Small (3-9 Workers)	84%	82%	67%
Small (10-24 Workers)	86*	77*	66
Small (25-49 Workers)	80	79*	64
Small (50-199 Workers)	82	84	70
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>83*</b>	<b>82</b>	<b>68</b>
Midsize (200-999 Workers)	79	86	68
Large (1,000-4,999 Workers)	82	85	69
Jumbo (5,000+ Workers)	76	85	65
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>78%</b>	<b>85%</b>	<b>67%</b>
<b>REGION</b>			
Northeast	82%	84%	70%
Midwest	79	82	65
South	79	85	68
West	75	86	64
<b>INDUSTRY</b>			
Mining/Construction/Wholesale	79%	84%	66%
Manufacturing	90*	86	77*
Transportation/Communication/Utility	89*	89*	79*
Retail	52*	78*	40*
Finance	85*	86	73*
Service	81	82	65
State/Local Government	93*	95*	88*
Health Care	78	83	65
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>79%</b>	<b>84%</b>	<b>67%</b>

## SOURCE :

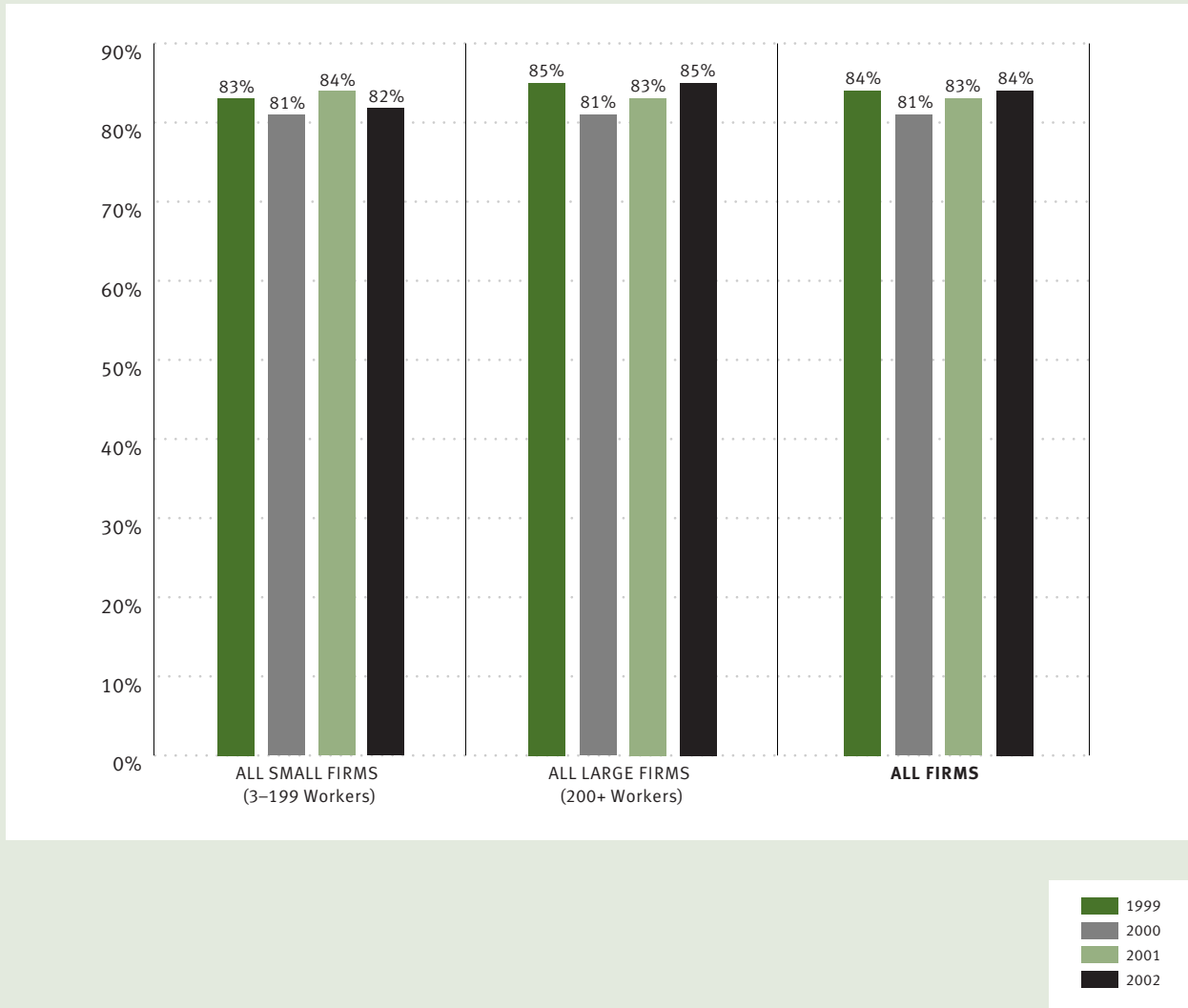
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms.

Take-up rate is the percentage of eligible workers who choose to participate in health benefits offered by their employer.

EXHIBIT 3.4

Percentage of Workers in Firms Offering Health Benefits Who Participate in Their Employer's Health Plan, by Firm Size, 1999-2002\*



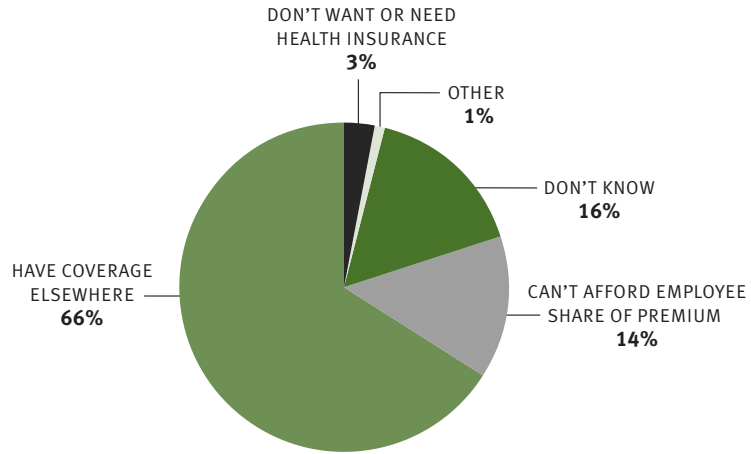
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002.

\* Tests found no statistically different estimates from the previous year shown: 1999-2000, 2000-2001, 2001-2002.

EXHIBIT 3.5

Most Common Reason Cited by Firms as to Why Workers Decline Coverage for Which They Are Eligible, 2002

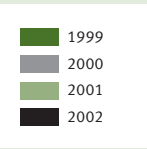
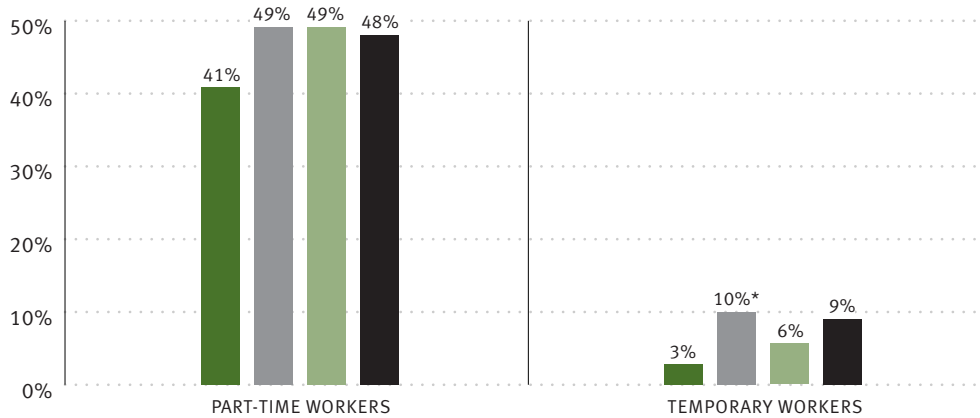


SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

EXHIBIT 3.6

Percentage of Workers Employed in Firms That Offer Part-Time and Temporary Workers Health Coverage, 1999-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002.

\* Estimate is statistically different from the previous year shown: 1999-2000, 2000-2001, 2001-2002.

## EXHIBIT 3.7

## Percentage of Workers Employed in Firms That Offer Part-Time and Temporary Workers Health Coverage, by Firm Size, Region, and Industry, 2002

	<i>Part-Time</i>	<i>Temporary</i>
<b>FIRM SIZE</b>		
Small (3-9 Workers)	23%*	1%*
Small (10-24 Workers)	22*	6
Small (25-49 Workers)	28*	6
Small (50-199 Workers)	28*	4*
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>26*</b>	<b>4*</b>
Midsize (200-999 Workers)	39*	4
Large (1,000-4,999 Workers)	57*	8
Jumbo (5,000+ Workers)	63*	14
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>57%*</b>	<b>11%</b>
<b>REGION</b>		
Northeast	57%*	8%
Midwest	47	4*
South	42	9
West	50	15
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	23%*	4%*
Manufacturing	43	3*
Transportation/Communication/Utility	40	4*
Retail	42	7
Finance	53	3*
Service	52	14
State/Local Government	64	21
Health Care	67*	4*
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>48%</b>	<b>9%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms.

## EXHIBIT 3.8

## Average Waiting Period for Health Coverage for New Employees, by Firm Size, Region, and Industry, 2002

	Average Wait for Health Coverage (Months)
<b>FIRM SIZE</b>	
Small (3-9 Workers)	4.1*
Small (10-24 Workers)	2.6*
Small (25-49 Workers)	2.4*
Small (50-199 Workers)	1.9
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>2.5*</b>
Midsize (200-999 Workers)	1.6
Large (1,000-4,999 Workers)	1.5
Jumbo (5,000+ Workers)	1.2*
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>1.4*</b>
<b>REGION</b>	
Northeast	1.4*
Midwest	1.6
South	1.8
West	2.2*
<b>INDUSTRY</b>	
Mining/Construction/Wholesale	2.4*
Manufacturing	1.5
Transportation/Communication/Utility	1.5
Retail	2.8*
Finance	1.5
Service	1.7
State/Local Government	0.9*
Health Care	2.0
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>1.7 MONTHS</b>

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms.





EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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Health  
Insurance  
Choice

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SECTION

4

## HEALTH INSURANCE CHOICE

MOST WORKERS WITH JOB-BASED INSURANCE CONTINUE TO HAVE A CHOICE OF HEALTH PLANS, WITH JUST UNDER HALF HAVING A CHOICE OF THREE OR MORE PLANS. NUMEROUS STUDIES HAVE FOUND THAT PLAN CHOICE IS ONE OF THE BEST PREDICTORS OF EMPLOYEE SATISFACTION WITH HEALTH PLANS.<sup>6</sup>

- ▶ PPO coverage, a less restrictive form of managed care, continued in 2002 to be the most common health plan option offered to covered workers. The percentage of covered workers with an HMO option increased slightly in 2002 (EXHIBIT 4.1).
  - The percentage of covered workers who can choose a PPO is 76%. Since 1988, the percentage of workers with the choice of a PPO has quadrupled, from 18% to 76%.
  - More covered workers have the option to enroll in an HMO this year, increasing from 46% in 2001 to 53% in 2002.
- The percentage of covered workers who can choose conventional coverage has fallen dramatically since 1988, from 90% to just 16% this year.
- The availability of POS plans was statistically unchanged in 2002, with 35% of covered workers having the option.
- ▶ The percentage of covered workers who can choose from multiple health plans has remained relatively stable since 1996. In 2002, 62% of covered workers have more than one health plan option. Thirty-eight percent of covered workers have just one plan option, similar to last year (40%) (EXHIBIT 4.3).
  - Health plan choice varies greatly by firm size: 93% of all small firms (3-199 workers) offer just one plan, compared with just 17% of jumbo firms (5,000 or more workers) (EXHIBITS 4.2, 4.4).
- Workers in the Northeast enjoy considerably more plan choice than their counterparts in the South and Midwest. More than two-thirds (75%) of workers in the Northeast can choose from at least two plans, while just 57% of Southern workers can do the same (EXHIBIT 4.5).
- Most workers offered an HMO have more than one HMO plan option (61%) (EXHIBITS 4.6, 4.8).
- ▶ In 2002, 17% of covered workers are in firms that contribute the same dollar amount regardless of the plan chosen, down from 27% in 2000 (EXHIBITS 4.11, 4.12).

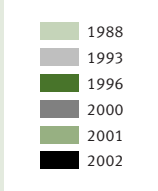
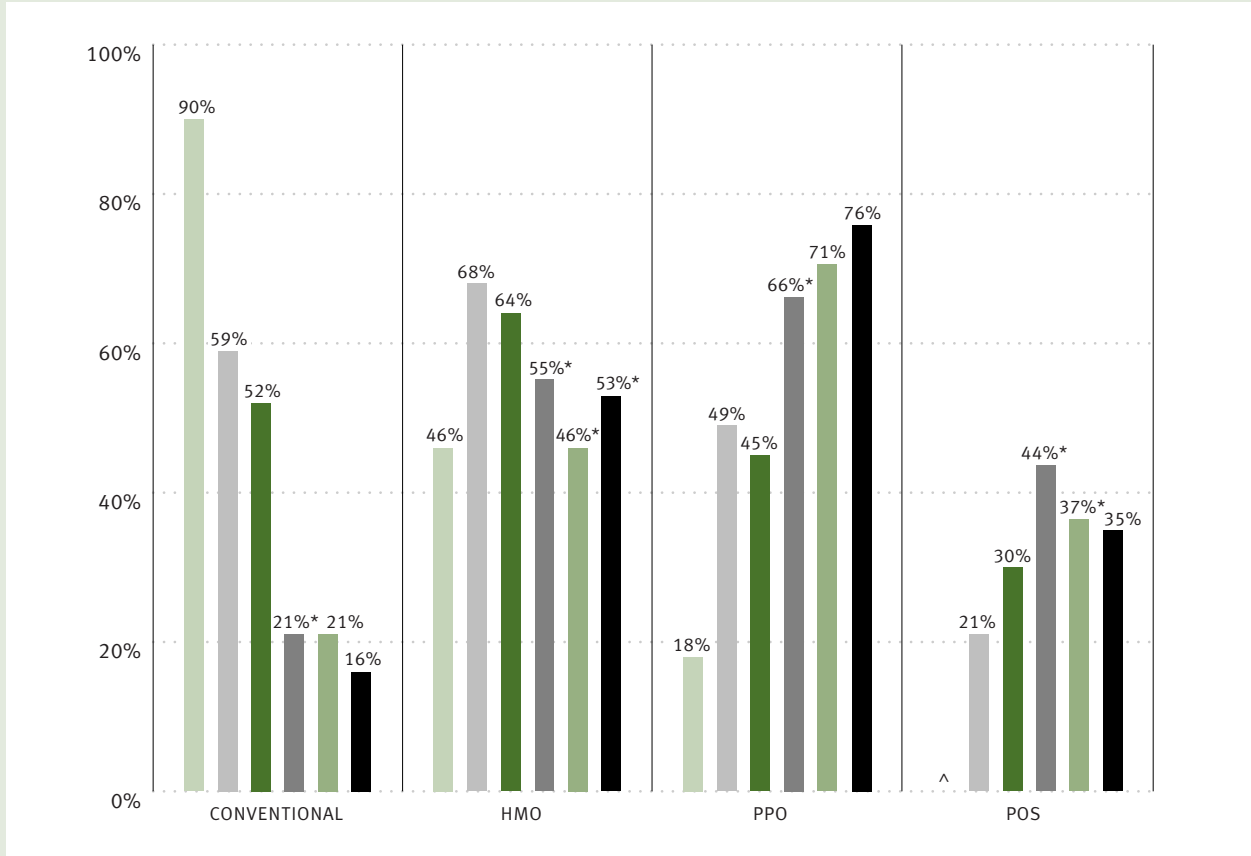
## NOTE:

<sup>6</sup>R. Ullman, et. al., "Satisfaction and Choice: A View From the Plans," *Health Affairs* (May/June 1997).  
K. Davis, et. al., "Choice Matters: Enrollees' View of Their Health Plans," *Health Affairs* (Summer 1995).

- ▶ While there has been considerable attention in the popular press to the “loosening” of restrictive managed care arrangements, relatively few workers in 2002 are covered by health plans that eliminated referrals for specialty care or utilization review of diagnostic tests. Employers report that the health plans they contract with expanded the number of doctors and hospitals in their networks, even though broadening networks may dilute their bargaining power of the health plans and potentially make it more difficult to restrict cost growth (EXHIBIT 4.13).
- *In 2002, 10% of covered workers in HMO plans and 11% of covered workers in POS plans are in plans that eliminated requirements that primary care physicians provide a referral for specialty care. About 12% of workers covered by an HMO and 8% of workers covered by a POS plan are in plans that eliminated utilization review requirements for diagnostic tests such as MRIs.*
- *About half (49%) of workers covered in HMOs and over half (54%) of workers covered in POS plans are in plans that expanded the number of providers in their physician networks. The percentage of workers in HMOs and POS plans that increased their hospital networks is slightly less, at 32% and 35% respectively.*

EXHIBIT 4.1

Percentage of Covered Workers With a Choice of Conventional, HMO, PPO, or POS Plans, 1988-2002



SOURCE :

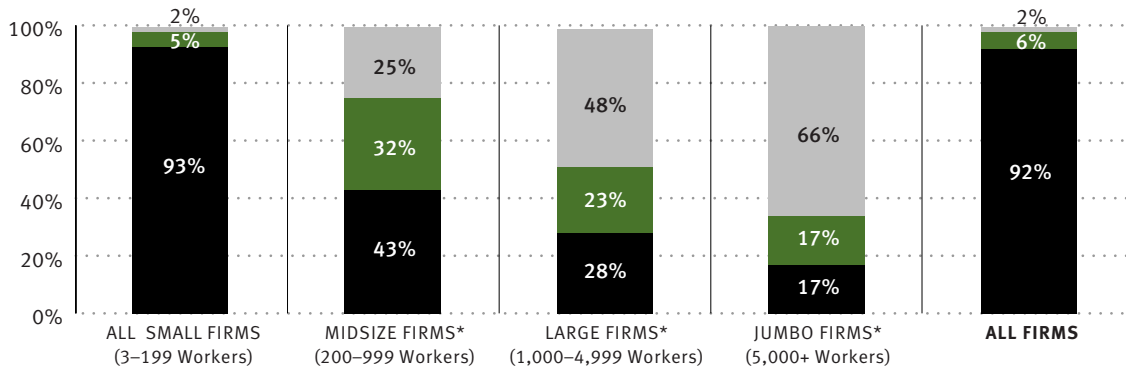
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for POS plans in 1988.

EXHIBIT 4.2

Percentage of Employers Providing a Choice of Health Plans, by Firm Size, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.

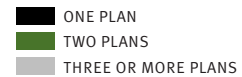
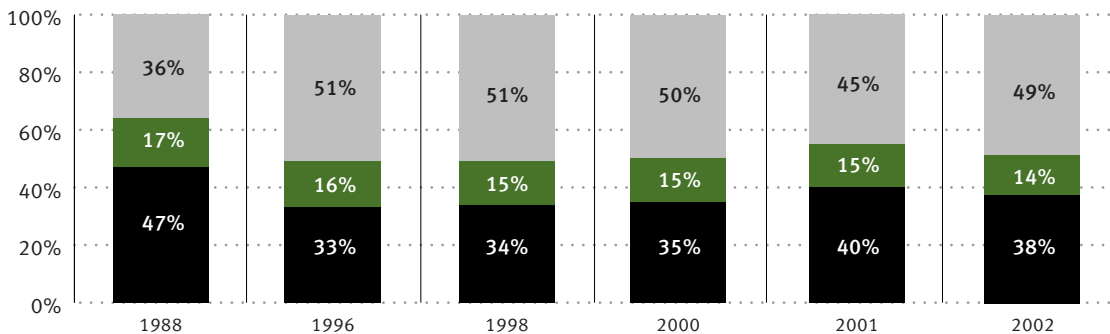


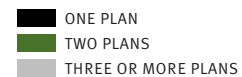
EXHIBIT 4.3

Percentage of Covered Workers With a Choice of Health Plans, 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996, 1998.



## EXHIBIT 4.4

## Percentage of Covered Workers With a Choice of Health Plans, by Firm Size, 1988-2002

	1 Plan Only	2 Plans	3 or More Plans
<b>1988</b>			
Small (3-9 Workers)	92%	5%	3%
Small (10-24 Workers)	85	7	9
Small (25-49 Workers)	58	24	19
Small (50-199 Workers)	62	22	16
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>66</b>	<b>19</b>	<b>15</b>
Midsize (200-999 Workers)	39	22	40
Large (1,000-4,999 Workers)	29	17	54
Jumbo (5,000+ Workers)	18	5	77
<b>ALL FIRM SIZES</b>	<b>47%</b>	<b>17%</b>	<b>36%</b>
<b>1996</b>			
Small (3-9 Workers)*	91%	2%	7%
Small (10-24 Workers)*	85	12	3
Small (25-49 Workers)*	83	14	3
Small (50-199 Workers)*	68	24	8
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>80</b>	<b>14</b>	<b>6</b>
Midsize (200-999 Workers)*	47	25	28
Large (1,000-4,999 Workers)*	22	23	55
Jumbo (5,000+ Workers)*	9	10	81
<b>ALL FIRM SIZES</b>	<b>33%</b>	<b>16%</b>	<b>51%</b>
<b>2000</b>			
Small (3-9 Workers)*	94%	4%	2%
Small (10-24 Workers)*	95	4	2
Small (25-49 Workers)*	82	14	4
Small (50-199 Workers)*	64	18	18
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>76</b>	<b>13</b>	<b>11</b>
Midsize (200-999 Workers)*	42	26	33
Large (1,000-4,999 Workers)*	28	20	53
Jumbo (5,000+ Workers)*	8	11	81
<b>ALL FIRM SIZES</b>	<b>35%</b>	<b>15%</b>	<b>50</b>
<b>2001</b>			
Small (3-9 Workers)*	96%	4%	0%
Small (10-24 Workers)*	88	9	3
Small (25-49 Workers)*	75	18	7
Small (50-199 Workers)*	59	25	16
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>72</b>	<b>18</b>	<b>10</b>
Midsize (200-999 Workers)	45	20	35
Large (1,000-4,999 Workers)*	28	22	50
Jumbo (5,000+ Workers)*	13	8	79
<b>ALL FIRM SIZES</b>	<b>40%</b>	<b>15%</b>	<b>45%</b>
<b>2002</b>			
Small (3-9 Workers)*	97%	3%	0%
Small (10-24 Workers)*	93	4	3
Small (25-49 Workers)*	74	23	3
Small (50-199 Workers)*	62	20	19
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>76</b>	<b>14</b>	<b>10</b>
Midsize (200-999 Workers)*	39	26	36
Large (1,000-4,999 Workers)*	25	18	57
Jumbo (5,000+ Workers)*	14	7	79
<b>ALL FIRM SIZES</b>	<b>38%</b>	<b>14%</b>	<b>49%</b>

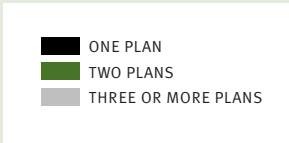
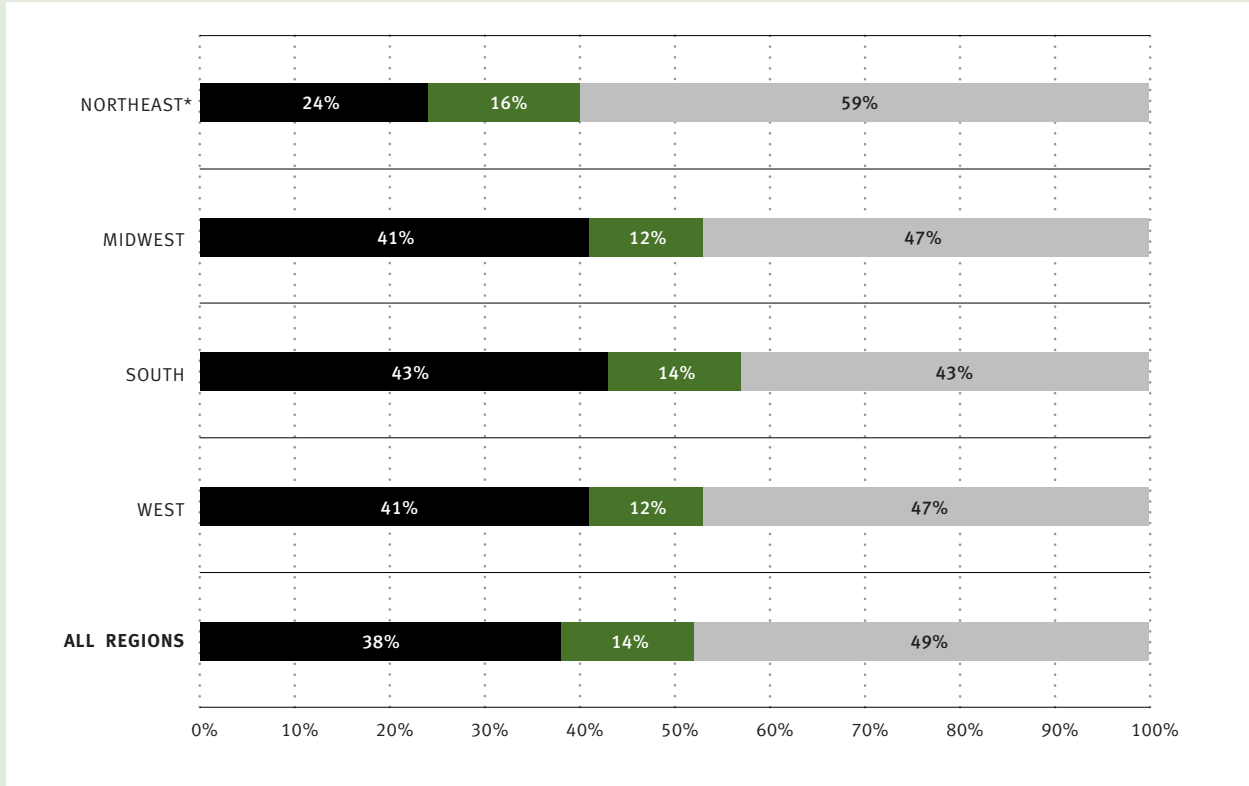
## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

\* Distribution is statistically different from All Firm Sizes by year.

EXHIBIT 4.5

Percentage of Covered Workers With a Choice of Health Plans, by Region, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is significantly different from All Regions.

## EXHIBIT 4.6

For Employers That Offer a Conventional, HMO, PPO, or POS Plan, Percentage of Covered Workers With a Choice of Health Plans, by Firm Size, 2002

	1 Plan Only	2 Plans	3 or More Plans
<b>CONVENTIONAL PLANS</b>			
Small (3-9 Workers)	NSD	NSD	NSD
Small (10-24 Workers)	NSD	NSD	NSD
Small (25-49 Workers)	NSD	NSD	NSD
Small (50-199 Workers)	NSD	NSD	NSD
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>92%</b>	<b>0%</b>	<b>8%</b>
Midsize (200-999 Workers)	88	11	1
Large (1,000-4,999 Workers)	86	9	6
Jumbo (5,000+ Workers)	57	5	38
<b>ALL FIRM SIZES</b>	<b>76%</b>	<b>5%</b>	<b>19%</b>
<b>HMO PLANS</b>			
Small (3-9 Workers)	NSD	NSD	NSD
Small (10-24 Workers)*	93%	7%	0%
Small (25-49 Workers)*	97	2	1
Small (50-199 Workers)*	75	20	4
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>87</b>	<b>11</b>	<b>2</b>
Midsize (200-999 Workers)*	47	33	20
Large (1,000-4,999 Workers)	34	29	37
Jumbo (5,000+ Workers)*	17	12	71
<b>ALL FIRM SIZES</b>	<b>39%</b>	<b>17%</b>	<b>44%</b>
<b>PPO PLANS</b>			
Small (3-9 Workers)*	100%	0%	0%
Small (10-24 Workers)*	99	0	0
Small (25-49 Workers)*	94	6	0
Small (50-199 Workers)*	89	9	2
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>93</b>	<b>5</b>	<b>1</b>
Midsize (200-999 Workers)*	77	20	3
Large (1,000-4,999 Workers)	69	17	13
Jumbo (5,000+ Workers)*	63	17	20
<b>ALL FIRM SIZES</b>	<b>76%</b>	<b>14%</b>	<b>10%</b>
<b>POS PLANS</b>			
Small (3-9 Workers)*	92%	8%	0%
Small (10-24 Workers)*	96	1	2
Small (25-49 Workers)*	85	12	2
Small (50-199 Workers)*	78	17	5
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>86</b>	<b>11</b>	<b>3</b>
Midsize (200-999 Workers)	62	23	14
Large (1,000-4,999 Workers)	64	20	16
Jumbo (5,000+ Workers)	54	10	36
<b>ALL FIRM SIZES</b>	<b>68%</b>	<b>14%</b>	<b>18%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

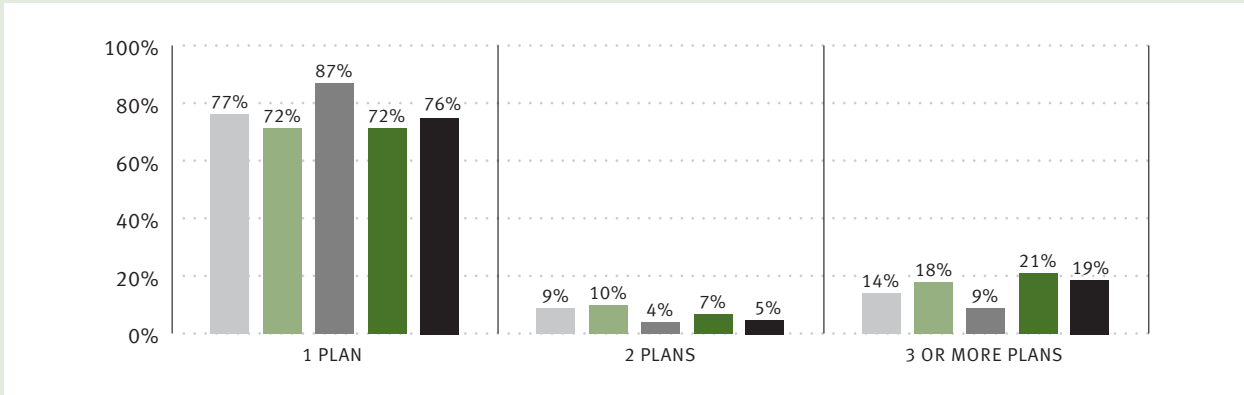
\* Distribution is statistically different from All Firm Sizes within a plan type.

NSD: Not sufficient data.



EXHIBIT 4.7

Percentage of Covered Workers in Firms Offering a Choice of Conventional Plans, 1996-2002\*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Tests found no statistically different estimates from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

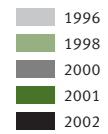
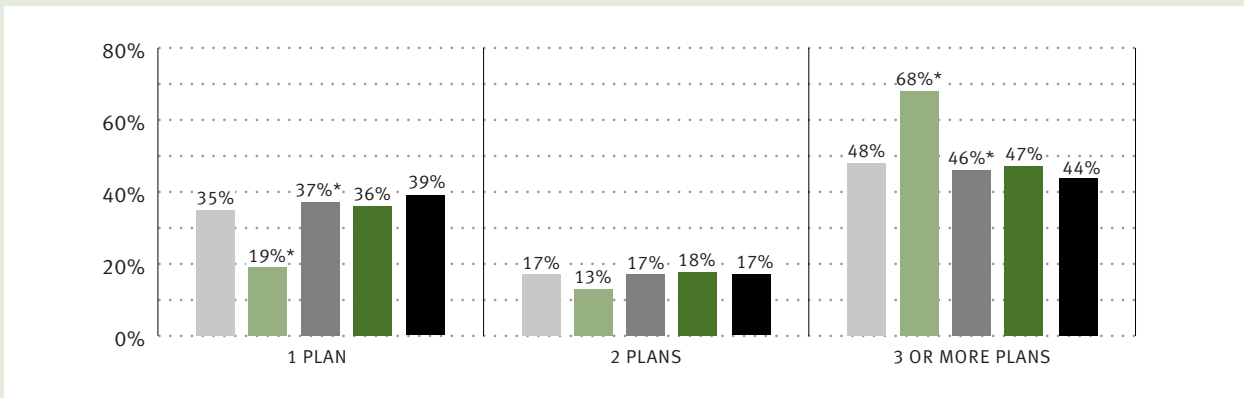


EXHIBIT 4.8

Percentage of Covered Workers in Firms Offering a Choice of HMO Plans, 1996-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

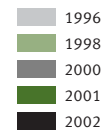
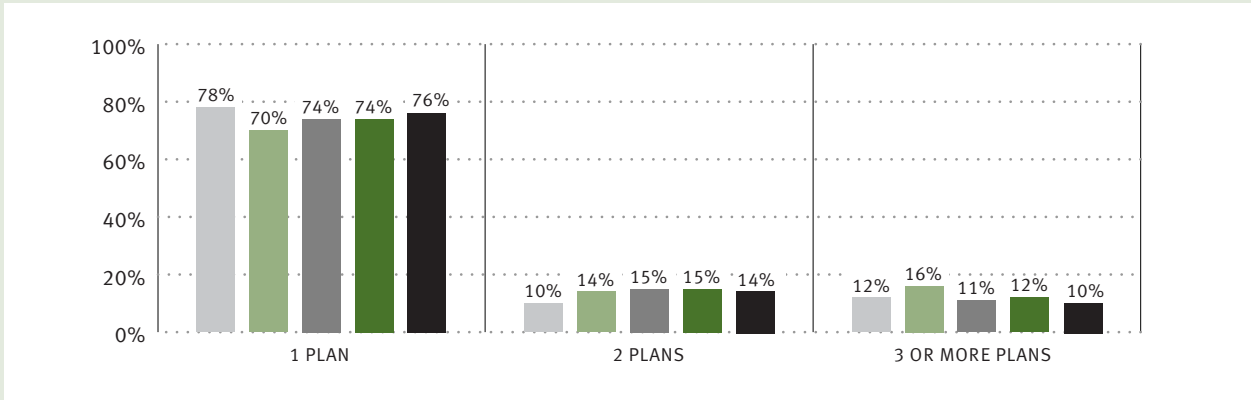


EXHIBIT 4.9

Percentage of Covered Workers in Firms Offering a Choice of PPO Plans, 1996-2002\*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Tests found no statistically different estimates from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

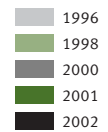
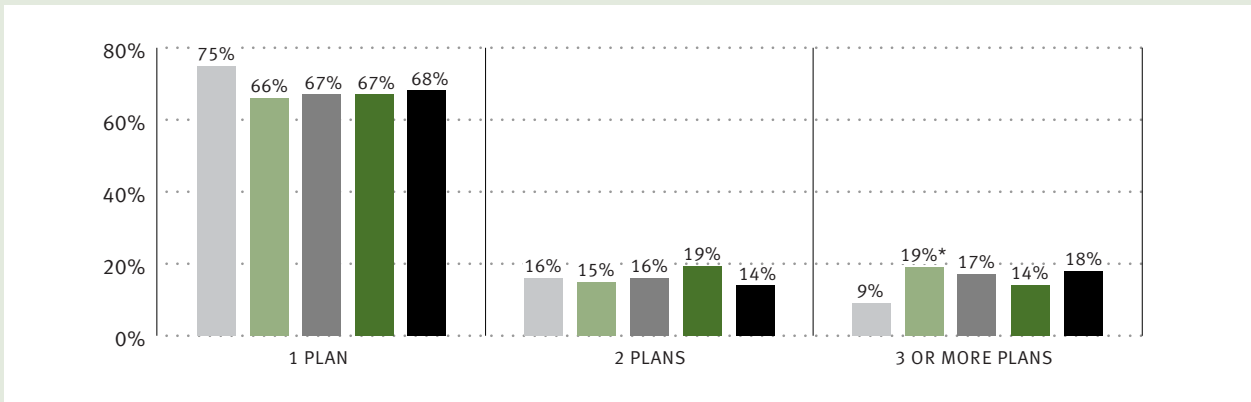


EXHIBIT 4.10

Percentage of Covered Workers in Firms Offering a Choice of POS Plans, 1996-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

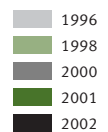
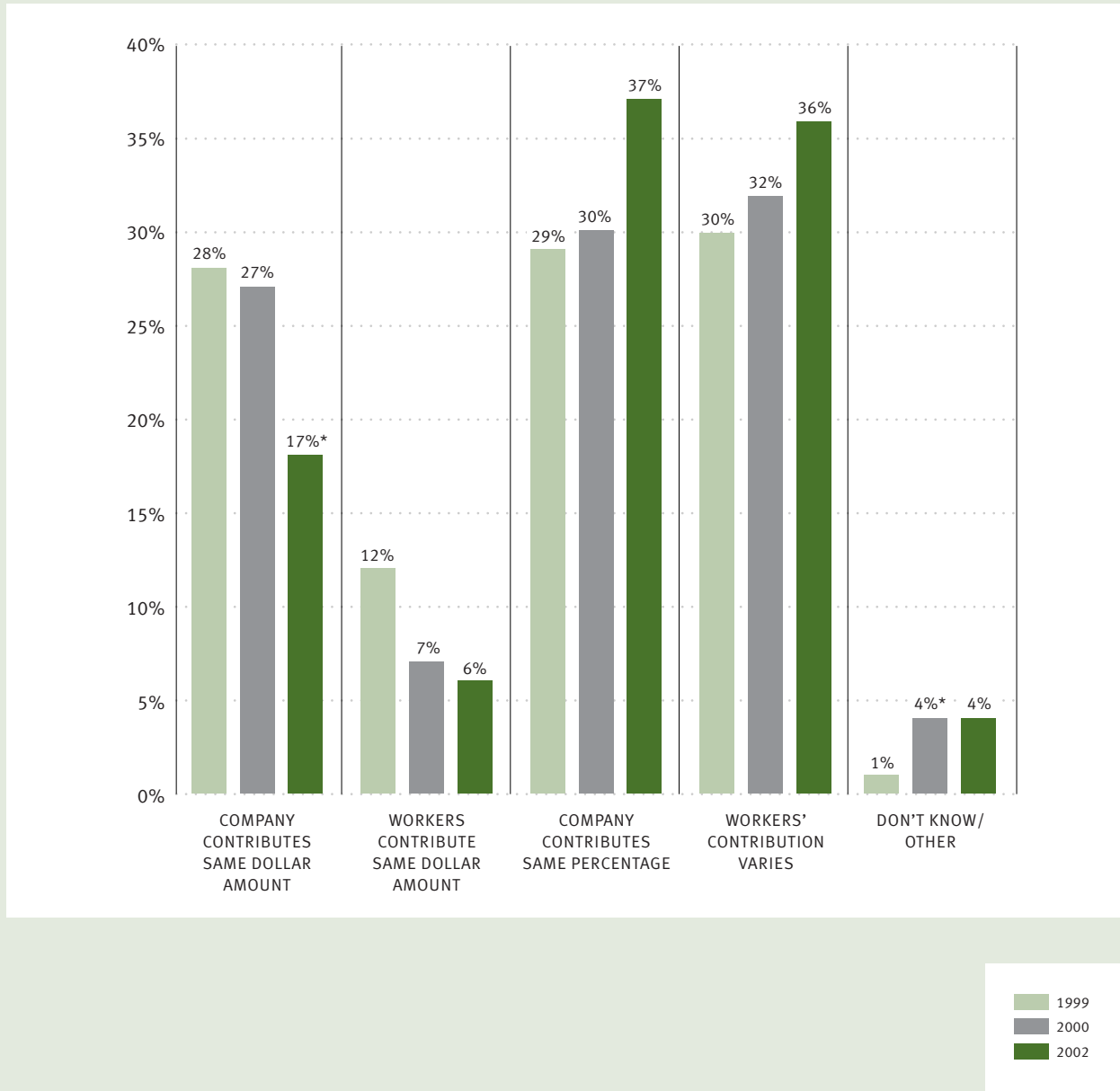


EXHIBIT 4.11

Contribution Policies for Covered Workers Who Are Offered a Choice of Health Plans, 1999, 2000 and 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2002.

\* Estimate is statistically different from previous year for years 1999-2000, 2000-2002.

## EXHIBIT 4.12

## Contribution Policies for Covered Workers Who Are Offered a Choice of Health Plans, by Firm Size, 2002\*

	<i>All Small Firms (3-199 Workers)</i>	<i>Midsize (200-999 Workers)</i>	<i>Large (1,000-4,999 Workers)</i>	<i>Jumbo (5,000+ Workers)</i>	<i>All Firm Sizes</i>
<b>EMPLOYEES OFFERED ONE PLAN ONLY</b>	<b>76%</b>	<b>39%</b>	<b>25%</b>	<b>14%</b>	<b>38%</b>
<b>EMPLOYEES OFFERED MORE THAN ONE PLAN</b>					
Company contributes the same dollar amount regardless of plan chosen	28%	12%	15%	17%	17%
Workers contribute the same dollar amount regardless of plan chosen	5	6	9	5	6
Company contributes same percentage of total premium regardless of plan chosen	41	40	38	35	37
Worker contribution varies based on other factors	21	39	35	39	36
Other	5	3	2	3	3
Don't know	0	0	0	1	1
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

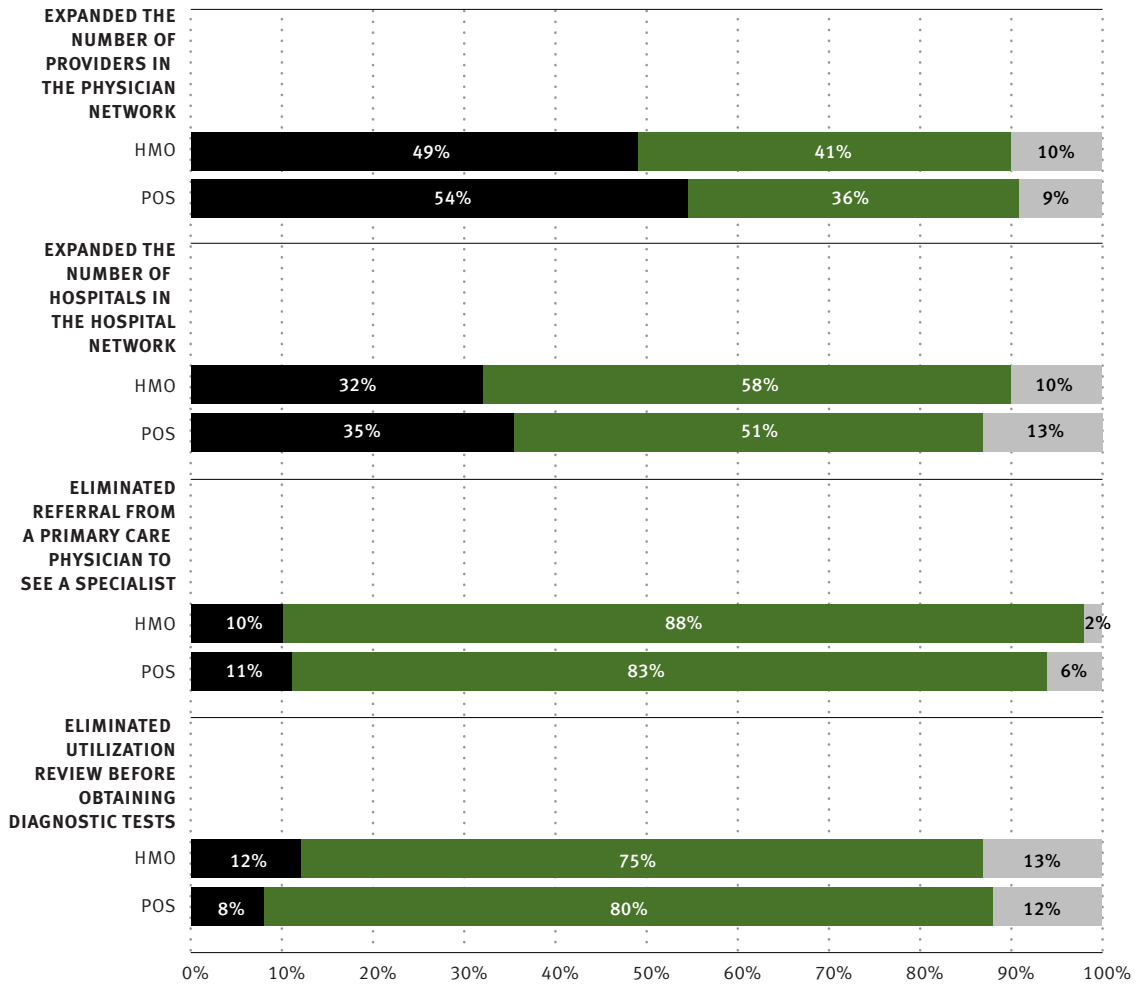
## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distributions from All Firm Sizes for employees offered more than one plan.

EXHIBIT 4.13

Percentage of Covered Workers Whose HMO or POS Plan Made the Following Changes in the Past Three Years, 2002



YES  
 NO  
 DON'T KNOW

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.



EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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Market  
Shares of  
Health Plans

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SECTION

5

## MARKET SHARES OF HEALTH PLANS

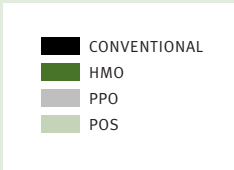
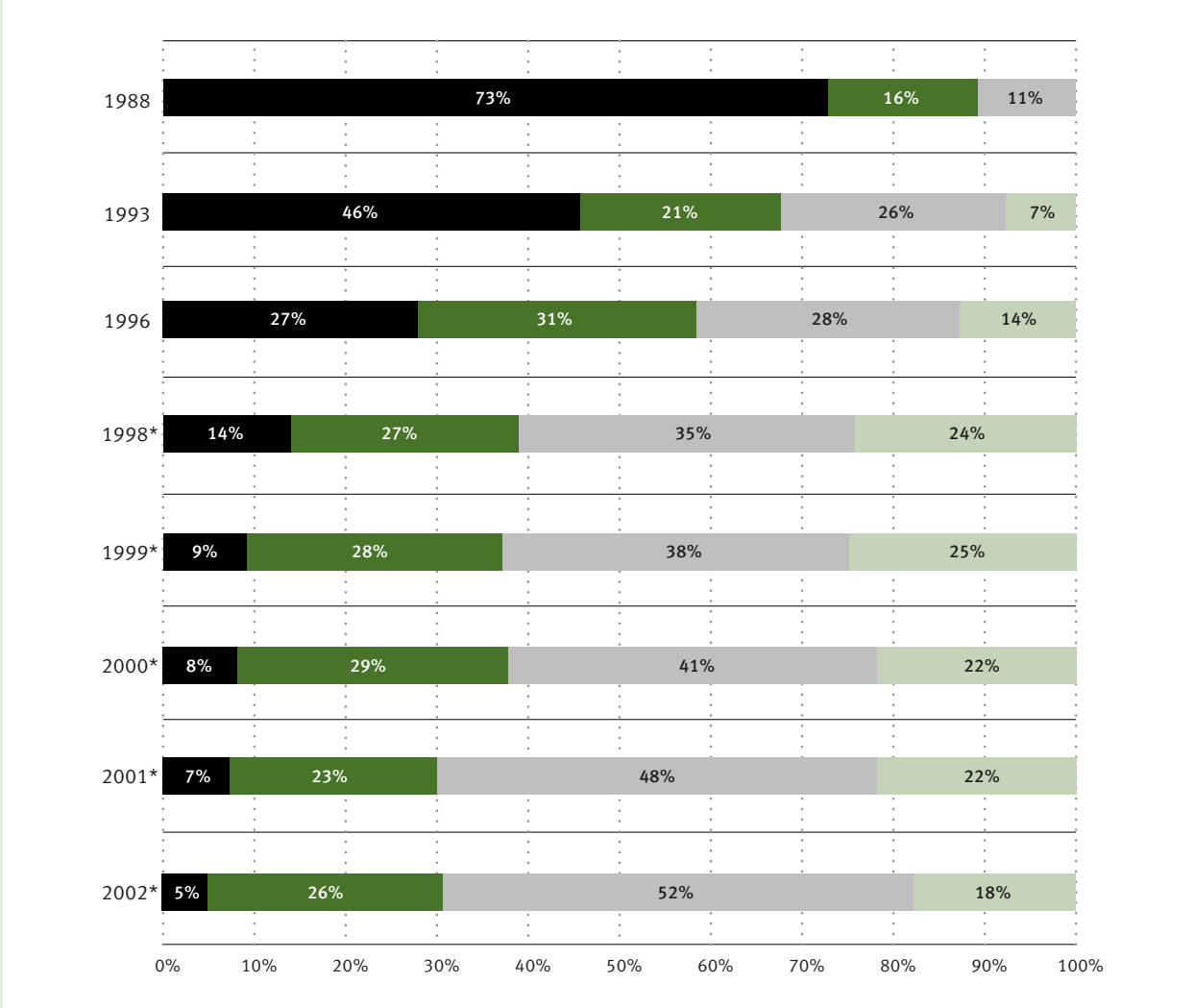
THE DISTRIBUTION OF ENROLLMENT ACROSS PLAN TYPES IN 2002 DID NOT CHANGE SIGNIFICANTLY FROM THE PRIOR YEAR. PPOS, WHICH HAVE GROWN STEADILY IN ENROLLMENT SINCE 1996, ENROLLED ABOUT HALF (52%) OF COVERED WORKERS IN 2002. HMO ENROLLMENT, WHICH HAD FALLEN LAST YEAR, APPEARS TO HAVE STABILIZED.

- ▶ More than half of covered workers (52%) are enrolled in PPO plans, up from 48% in 2000 and 41% in 1999 (EXHIBIT 5.1). PPO enrollment is particularly strong in the South (61% of covered workers) and in the mining, construction, and wholesale industries (61% of covered workers) (EXHIBIT 5.2).
- ▶ HMO enrollment of covered workers, which fell from 31% in 1996 to 23% last year, is 26% in 2002 (EXHIBIT 5.1).
  - *HMO enrollment has stabilized across all regions of the country, but remains much higher in the West, where HMOs enroll 36% of workers.*
- *As we observed last year, workers in small firms (3-99 workers) are more likely to be enrolled in POS plans than are workers in large firms (200 or more workers), but less likely to be enrolled in HMOs.*
- ▶ Within HMOs, enrollment in plans with different contracting arrangements is similar this year to 2001. This year, 45% of enrollees in HMOs are in Independent Practice Association (IPA) models, in which the HMO contracts with a physician organization that in turn contracts with independent physicians. Staff and group model HMOs, which employ health care providers directly or through a dedicated group of doctors, cover 11% of HMO enrollees. Mixed model HMOs have 41% of HMO enrollment (EXHIBIT 5.3).
- *In the West, staff and group model HMO enrollment remains much higher than elsewhere in the country, at 31%.*



EXHIBIT 5.1

Health Plan Enrollment for Covered Workers, by Plan Type, 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996, 1998.

\* Distribution is statistically different from the previous year shown: 1996-1998, 1998-1999, 1999-2000, 2000-2001, 2001-2002.

## EXHIBIT 5.2

## Health Plan Enrollment, by Firm Size, Region, and Industry, 2002

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>
<b>FIRM SIZE</b>				
Small (3-9 Workers)	8%	16%*	52%	24%
Small (10-24 Workers)	5	18*	53	24
Small (25-49 Workers)	4	32	43	20
Small (50-199 Workers)	3	18*	61*	18
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>4</b>	<b>19*</b>	<b>56</b>	<b>21</b>
Midsize (200-999 Workers)	6	20*	56	17
Large (1,000-4,999 Workers)	3	27	53	16
Jumbo (5,000+ Workers)	5	32*	47	16
<b>REGION</b>				
Northeast	4%	29%	42%*	26%*
Midwest	10	23	55	12*
South	2*	21	61*	15
West	5	36*	41*	18
<b>INDUSTRY</b>				
Mining/Construction/Wholesale	2%	19%	61%*	17%
Manufacturing	6	30	50	14
Transportation/Communication/Utility	3	25	45	27
Retail	4	15*	59	22
Finance	3	26	47	24
Service	5	24	54	18
State/Local Government	7	36*	47	9*
Health Care	3	26	52	20
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>5%</b>	<b>26%</b>	<b>52%</b>	<b>18%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firm Sizes, Regions, and Industries.

## EXHIBIT 5.3

## Percentage of Covered Workers Enrolled in Various Types of HMOs, by Firm Size, Region, and Industry, 2002

	IPA	Staff/Group	Mixed	Don't Know
<b>FIRM SIZE</b>				
All Small Firms (3-199 Workers)	33%	16%	46%	6%
Midsize (200-999 Workers)	32	6	59	3
Large (1,000-4,999 Workers)	51	10	38	2
Jumbo (5,000+ Workers)	52	11	37	0
<b>REGION</b>				
Northeast*	56%	1%	41%	1%
Midwest*	55	2	39	4
South	43	13	44	0
West*	24	31	42	3
<b>INDUSTRY</b>				
Mining/Construction/Wholesale	35%	6%	50%	10%
Manufacturing	49	9	40	2
Transportation/Communication/Utility	37	7	56	0
Retail	36	12	52	0
Finance	65	6	29	0
Service	29	23	45	4
State/Local Government	63	7	30	0
Health Care	43	7	49	0
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>45%</b>	<b>11%</b>	<b>41%</b>	<b>2%</b>

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

IPA (Independent Practice Association) model HMO: an HMO model in which the HMO contracts with a physician organization, which, in turn, contracts with independent physicians. The IPA physicians practice in their own offices and continue to see fee-for-service patients.

Staff model HMO: a model in which the HMO employs health care providers directly. The providers are employees of the HMO, and provide care exclusively to HMO members.

Group model HMO: an HMO in which the plan contracts exclusively with a single group of physicians.

\* Distribution is statistically different from All Firm Sizes, Regions and Industries.



EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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Employee  
Contributions for  
Premiums

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SECTION

6

## EMPLOYEE CONTRIBUTIONS FOR PREMIUMS

EMPLOYERS CAN MORE EASILY PASS ALONG A PART OF INCREASING HEALTH CARE PREMIUMS TO THEIR EMPLOYEES WHEN LABOR MARKETS ARE SLACK. THIS CAN AFFECT WORKERS IN SEVERAL WAYS: WORKERS MAY SEEK LESS EXPENSIVE PLAN OPTIONS, OR, IF THE EMPLOYEE'S SHARE OF THE PREMIUM IS HIGH ENOUGH, MAY CHOOSE NOT TO ACCEPT HEALTH INSURANCE COVERAGE.

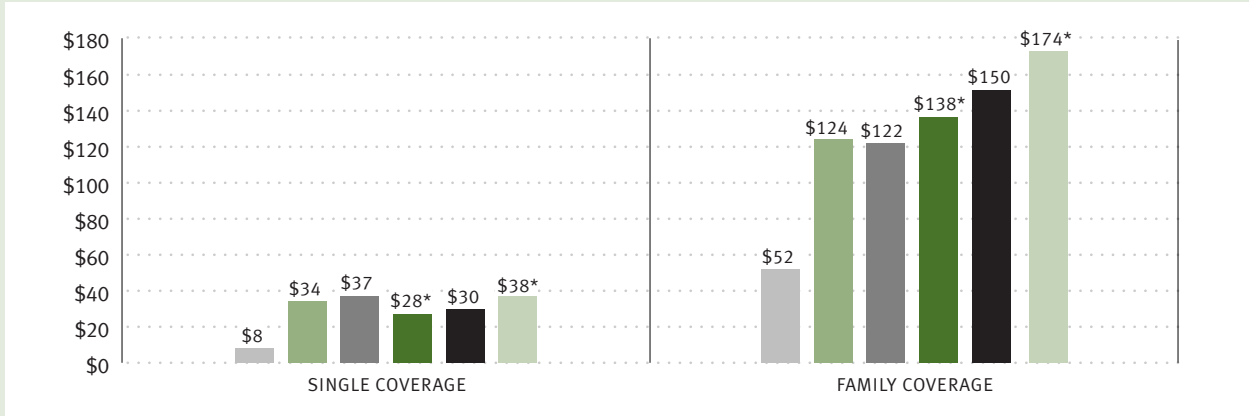
IN 2002, EMPLOYEE CONTRIBUTIONS FOR SINGLE AND FAMILY COVERAGE INCREASED SUBSTANTIALLY IN NOMINAL DOLLARS – CONTRIBUTIONS FOR SINGLE COVERAGE GREW ALMOST 27% WHILE CONTRIBUTIONS FOR FAMILY COVERAGE GREW BY 16%. DESPITE THESE LARGE INCREASES IN EMPLOYEE CONTRIBUTIONS, EMPLOYERS CONTINUE TO BEAR THE MAJORITY OF INCREASING PREMIUM COSTS.

- Workers are paying more for their health benefits, particularly for single coverage, than they did in 2001. The average monthly worker contribution in 2002 is \$38 for single coverage, up from \$30 last year, and \$174 for family coverage, up from \$150 last year (EXHIBIT 6.1). On average, worker's annual contributions for single coverage increased by \$95 and contributions for family coverage increased \$283. The fact that worker contributions have increased in 2002 after remaining stable or declining in prior years is likely due to employers' greater willingness to pass along cost increases given the weaker economy and lower demand for labor.
- ▶ Despite the large nominal increases in employee contributions in 2002, the average percentage of total premiums that workers pay remains virtually unchanged in 2002: 16% across plan types for single coverage, and 27% for family coverage (EXHIBIT 6.2).
- *Percentage contributions for family coverage have remained fairly stable for a number of years, while those for single coverage declined from 1996 to 2000 (from 21% to 14%) and have remained stable since that time.*
- ▶ Nearly all firms that offer health insurance contribute 50% or more to the cost of premiums for covered workers (EXHIBIT 6.7, 6.8). Employers are most likely to contribute between 75-100% of premiums for single and family coverage.
- *The percentage of covered workers whose employers pay the full cost of single or family coverage declined – from 30% in 2001 to 23% this year for single coverage. Employers are more likely to pay the full cost of employee premiums for single coverage – 23% of covered workers have the full cost of single premiums paid by their employer compared to 9% who have the full cost paid for family premiums.*

- In 2002, workers in small firms (3-199 workers) pay an average of 34% of the premium for family coverage, compared with 25% for workers in large firms (200 or more workers) (EXHIBIT 6.10).
- Firms with a high percentage of low-wage workers – where 35% or more earn \$20,000 or less per year – pay just 65% of the premium for family coverage, compared with 74% of premiums paid by firms with few low-wage workers (EXHIBIT 6.9). Firms with union workers pay 79% of the total cost of family coverage, compared with 68% of premiums paid by firms with no union workers.
- ▶ The slack labor market may make it easier for employers to pass along the cost of health insurance to employees, but doing so may have an adverse impact on the firms' ability to attract and retain workers. Of the firms that increased the amount employees pay for coverage this year, 41% report that it was somewhat harder to attract and retain workers compared to 23% of firms who did not increase the amount employees pay. Firms that did not increase employee costs report a much easier time attracting and retaining workers than firms that raised costs, 15% and 4% respectively (EXHIBIT 6.19).

EXHIBIT 6.1

Average Monthly Worker Contribution for Single and Family Coverage, 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

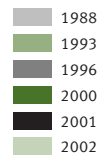
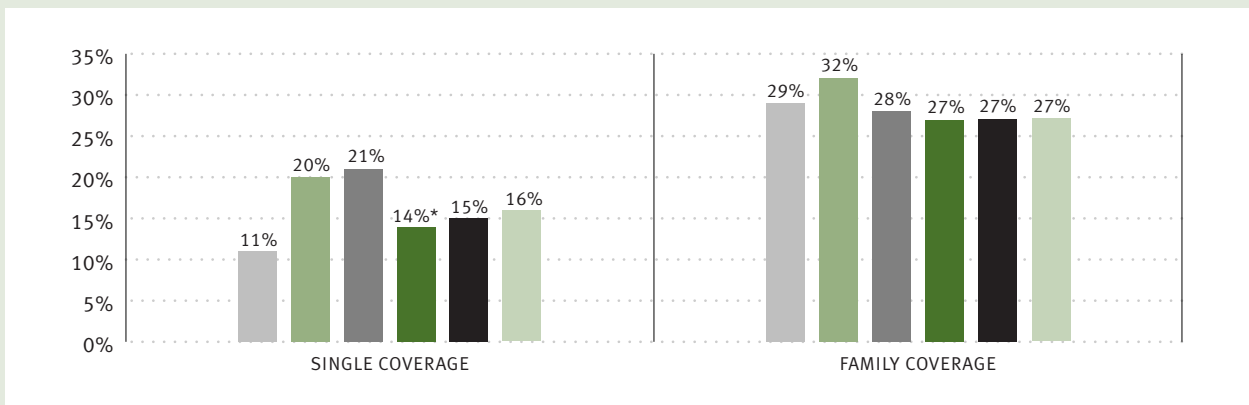


EXHIBIT 6.2

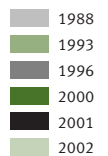
Percentage of Premium Paid by Covered Workers for Single and Family Coverage, 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.





## EXHIBIT 6.3

## Average Monthly Worker Premium Contributions, by Firm Size, 2002

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
All Small Firms (3-199 Workers)	\$35	\$111	\$416	\$1,332
Midsize (200-999 Workers)	32	137	380	1,643
Large (1,000-4,999 Workers)	29	168	347	2,011
Jumbo (5,000+ Workers)	39	143	473	1,720
<b>ALL FIRM SIZES</b>	<b>\$36</b>	<b>\$136</b>	<b>\$426</b>	<b>\$1,630</b>
<b>HMO PLANS</b>				
All Small Firms (3-199 Workers)	\$40	\$202*	\$482	\$2,428*
Midsize (200-999 Workers)	42	186	499	2,235
Large (1,000-4,999 Workers)	39	154	473	1,848
Jumbo (5,000+ Workers)	36	144	427	1,723
<b>ALL FIRM SIZES</b>	<b>\$38</b>	<b>\$163</b>	<b>\$455</b>	<b>\$1,960</b>
<b>PPO PLANS</b>				
All Small Firms (3-199 Workers)	\$29*	\$220*	\$347*	\$2,645*
Midsize (200-999 Workers)	34	167	414	2,001
Large (1,000-4,999 Workers)	38	158	453	1,898
Jumbo (5,000+ Workers)	42	157	506	1,889
<b>ALL FIRM SIZES</b>	<b>\$36</b>	<b>\$179</b>	<b>\$432</b>	<b>\$2,152</b>
<b>POS PLANS</b>				
All Small Firms (3-199 Workers)	\$41	\$196	\$496	\$2,349
Midsize (200-999 Workers)	41	165	489	1,978
Large (1,000-4,999 Workers)	35	146	425	1,751
Jumbo (5,000+ Workers)	51	190	612	2,281
<b>ALL FIRM SIZES</b>	<b>\$44</b>	<b>\$182</b>	<b>\$527</b>	<b>\$2,186</b>
<b>ALL PLANS</b>				
All Small Firms (3-199 Workers)	\$34	\$207*	\$407	\$2,485*
Midsize (200-999 Workers)	37	169	442	2,023
Large (1,000-4,999 Workers)	38	155	451	1,865
Jumbo (5,000+ Workers)	41	157	496	1,889
<b>ALL FIRM SIZES</b>	<b>\$38</b>	<b>\$174</b>	<b>\$454</b>	<b>\$2,084</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firm Sizes within a plan type.

## EXHIBIT 6.4

## Average Monthly Worker Premium Contributions, by Region, 2002

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
Northeast	\$39	\$122	\$468	\$1,461
Midwest	39	126	471	1,511
South	27	234*	324	2,812*
West	27	83*	327	992*
<b>ALL REGIONS</b>	<b>\$36</b>	<b>\$136</b>	<b>\$426</b>	<b>\$1,630</b>
<b>HMO PLANS</b>				
Northeast	\$45	\$163	\$536	\$1,954
Midwest	34	113*	408	1,353*
South	38	188	453	2,256
West	34	181	411	2,173
<b>ALL REGIONS</b>	<b>\$38</b>	<b>\$163</b>	<b>\$455</b>	<b>\$1,960</b>
<b>PPO PLANS</b>				
Northeast	\$40	\$144*	\$484	\$1,733*
Midwest	37	155*	441	1,863*
South	36	212*	426	2,549*
West	29	168	353	2,014
<b>ALL REGIONS</b>	<b>\$36</b>	<b>\$179</b>	<b>\$432</b>	<b>\$2,152</b>
<b>POS PLANS</b>				
Northeast	\$48	\$189	\$580	\$2,272
Midwest	43	146	514	1,753
South	44	225*	525	2,695*
West	36	123*	430	1,476*
<b>ALL REGIONS</b>	<b>\$44</b>	<b>\$182</b>	<b>\$527</b>	<b>\$2,186</b>
<b>ALL PLANS</b>				
Northeast	\$44*	\$161	\$523*	\$1,927
Midwest	37	141*	445	1,697*
South	37	210*	445	2,514*
West	32	161	387	1,927
<b>ALL REGIONS</b>	<b>\$38</b>	<b>\$174</b>	<b>\$454</b>	<b>\$2,084</b>

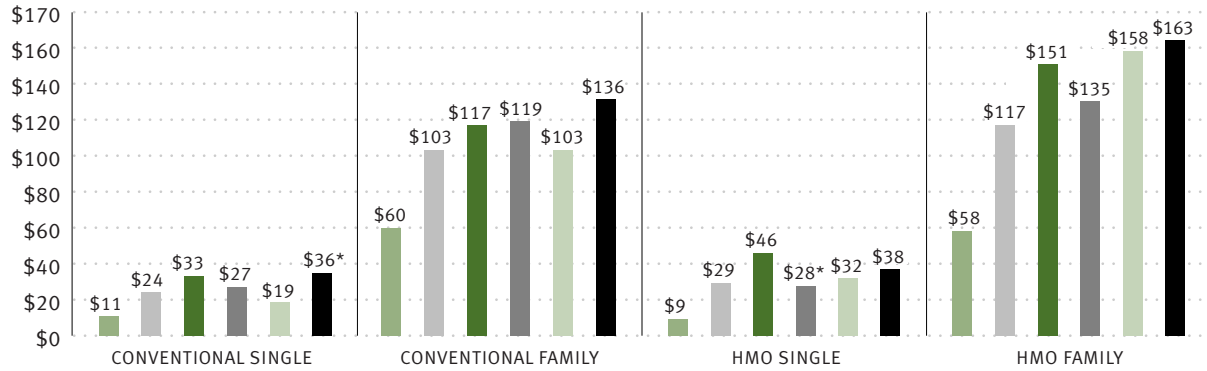
## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Regions within a plan type.

EXHIBIT 6.5

Monthly Worker Contributions for Single and Family Coverage in Conventional and HMO Plans, 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

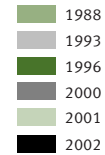
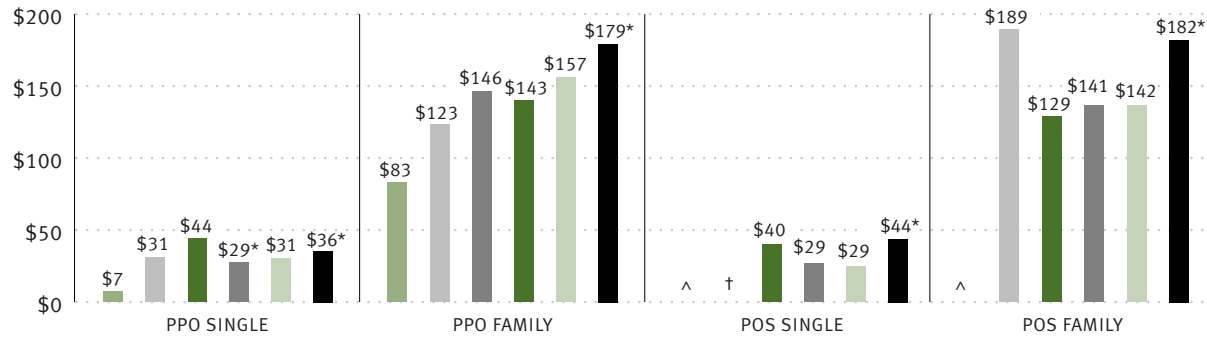


EXHIBIT 6.6

Monthly Worker Contributions for Single and Family Coverage in PPO and POS Plans, 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for POS plans in 1988.

† Information was not obtained for POS single coverage in 1993.

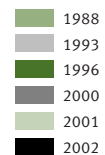
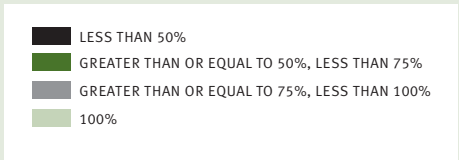
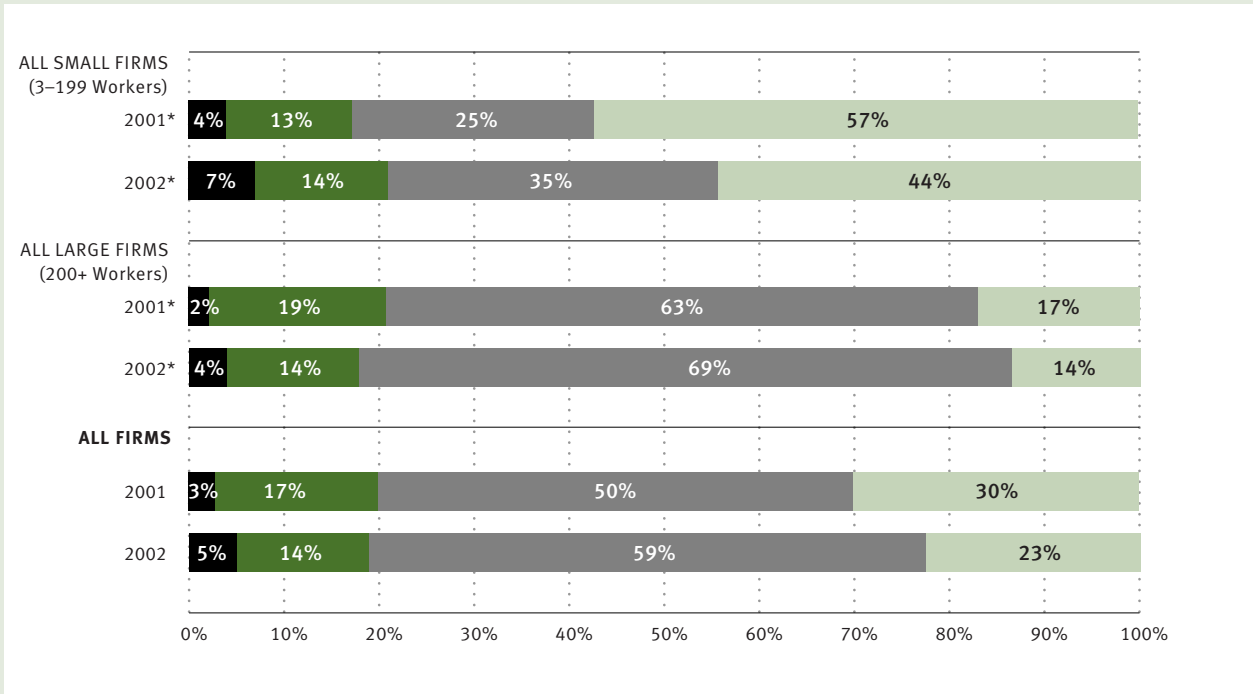


EXHIBIT 6.7

Distribution of Percentage of Single Premiums Paid by Firms for Covered Workers, by Firm Size, 2001 and 2002



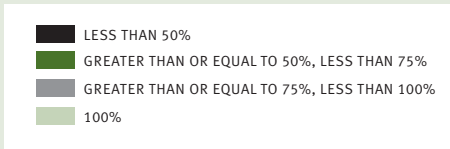
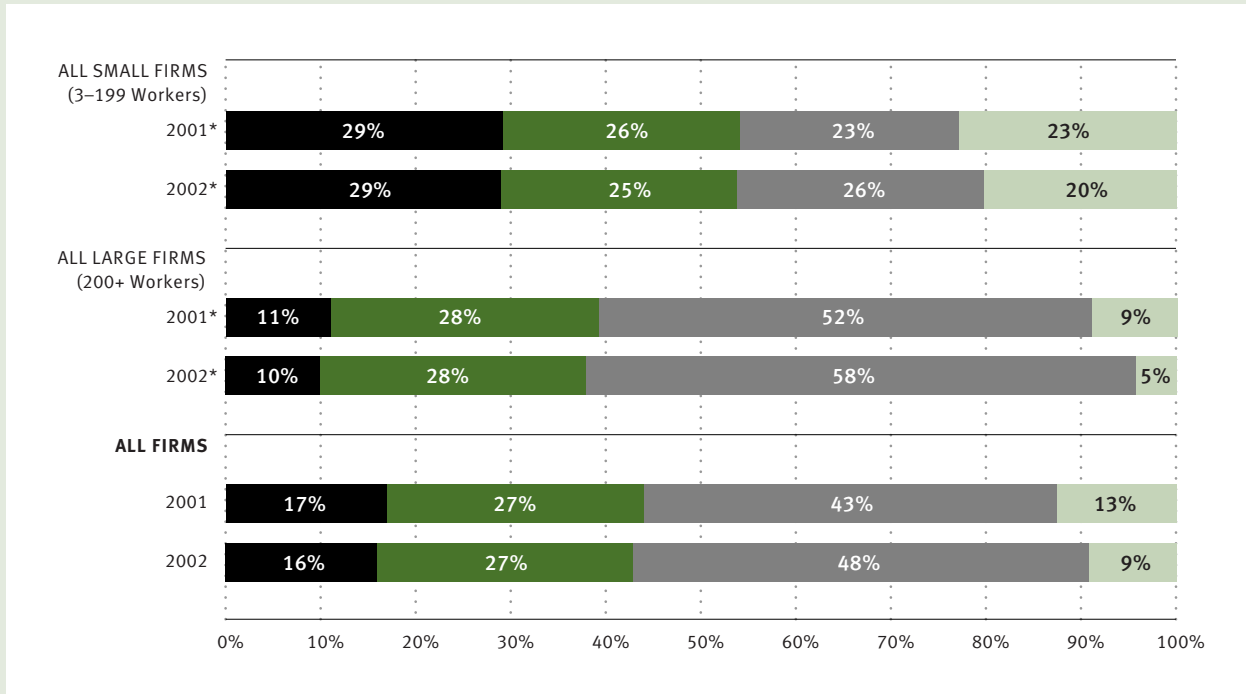
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001, 2002.

\* Distribution is statistically different from All Firms by Year.

EXHIBIT 6.8

Distribution of Percentage of Family Premiums Paid by Firms for Covered Workers, by Firm Size, 2001 and 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001, 2002.

\* Distribution is statistically different from All Firms by Year.

## EXHIBIT 6.9

## Percentage of Overall Single and Family Premiums Paid by Firm, by Percentage of Workforce That is Low Wage, 2002

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>PERCENT OF WORKFORCE EARNING \$20,000 OR LESS PER YEAR</b>		
Less Than 35% (Higher Wage Firms)	85%	74%
35% or More (Lower Wage Firms)	82%	65%*
<b>ALL FIRMS</b>	<b>84%</b>	<b>73%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms.

## EXHIBIT 6.10

## Percentage of Premium Paid by Firm for Typical Covered Worker in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2002

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
All Small Firms (3-199 Workers)	89%	83%
Midsize (200-999 Workers)	89	81
Large (1,000-4,999 Workers)	89	76
Jumbo (5,000+ Workers)	86	77
<b>ALL FIRM SIZES</b>	<b>88%</b>	<b>80%</b>
<b>HMO PLANS</b>		
All Small Firms (3-199 Workers)	82%	66%*
Midsize (200-999 Workers)	81	68
Large (1,000-4,999 Workers)	83	76
Jumbo (5,000+ Workers)	85	78
<b>ALL FIRM SIZES</b>	<b>83%</b>	<b>74%</b>
<b>PPO PLANS</b>		
All Small Firms (3-199 Workers)	88%*	64%*
Midsize (200-999 Workers)	87	75*
Large (1,000-4,999 Workers)	84	76*
Jumbo (5,000+ Workers)	82	75
<b>ALL FIRM SIZES</b>	<b>85%</b>	<b>72%</b>
<b>POS PLANS</b>		
All Small Firms (3-199 Workers)	84%	69%
Midsize (200-999 Workers)	83	75
Large (1,000-4,999 Workers)	87	81*
Jumbo (5,000+ Workers)	81	71
<b>ALL FIRM SIZES</b>	<b>83%</b>	<b>72%</b>
<b>ALL PLANS</b>		
All Small Firms (3-199 Workers)	86%	66%*
Midsize (200-999 Workers)	85	74
Large (1,000-4,999 Workers)	84	77*
Jumbo (5,000+ Workers)	83	75
<b>ALL FIRM SIZES</b>	<b>84%</b>	<b>73%</b>

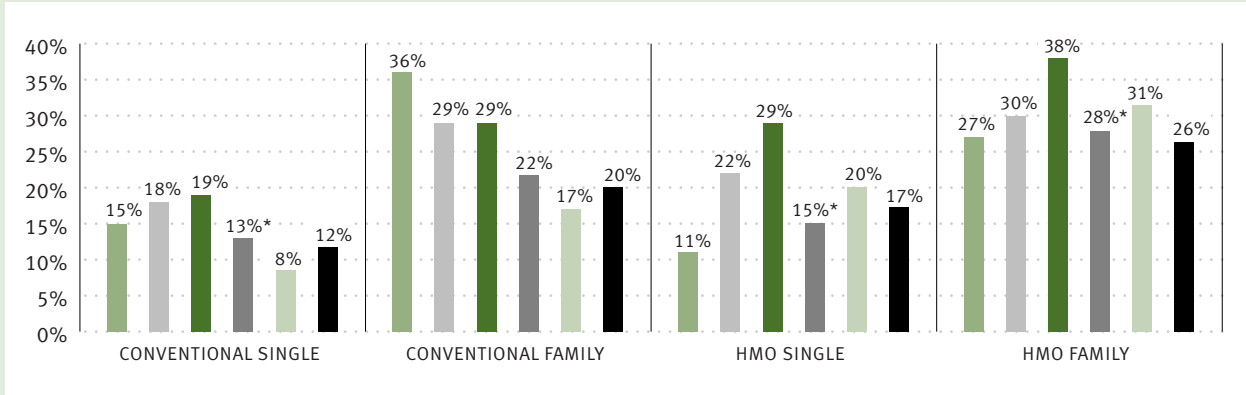
## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms within a plan type.

EXHIBIT 6.11

Percentage of Premium Paid by Workers in Conventional and HMO Plans, 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

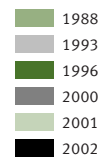
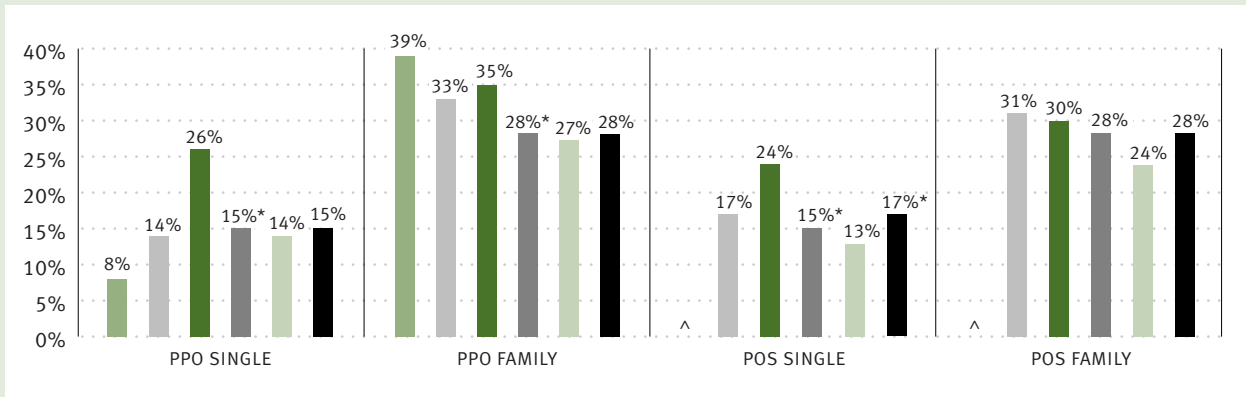


EXHIBIT 6.12

Percentage of Premium Paid by Workers in PPO and POS Plans, 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for POS plans in 1988.

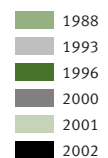
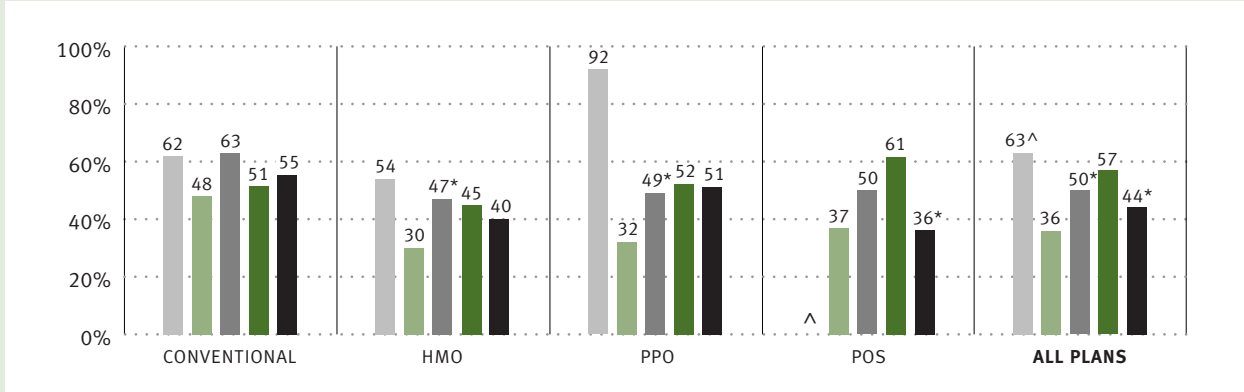




EXHIBIT 6.13

Percentage of Covered Workers in Plans Where Employer Pays Entire Cost of Single Plan Coverage, All Small Firms (3-199 Workers), 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for POS plans in 1988.

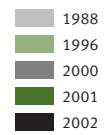
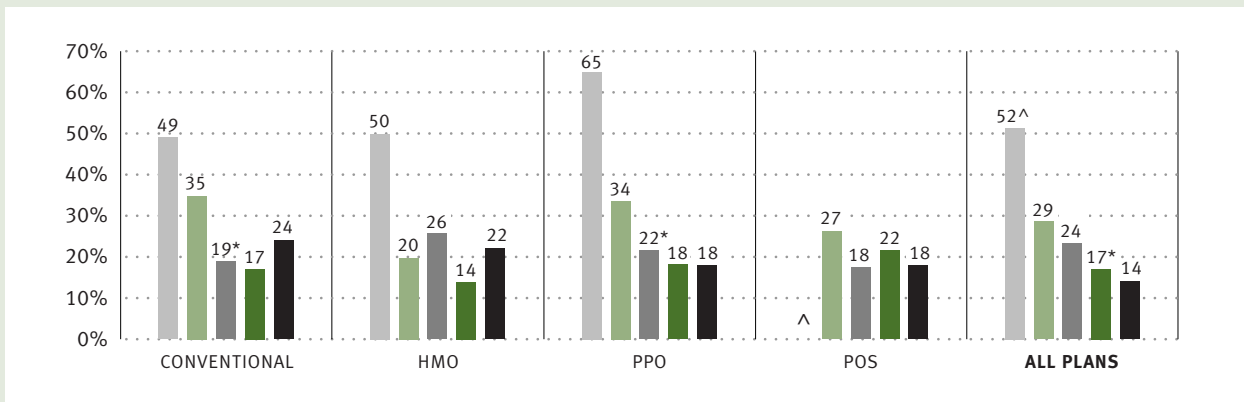


EXHIBIT 6.14

Percentage of Covered Workers in Plans Where Employer Pays Entire Cost of Single Plan Coverage, All Large Firms (200+ Workers), 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for POS plans in 1988.

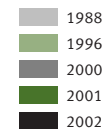
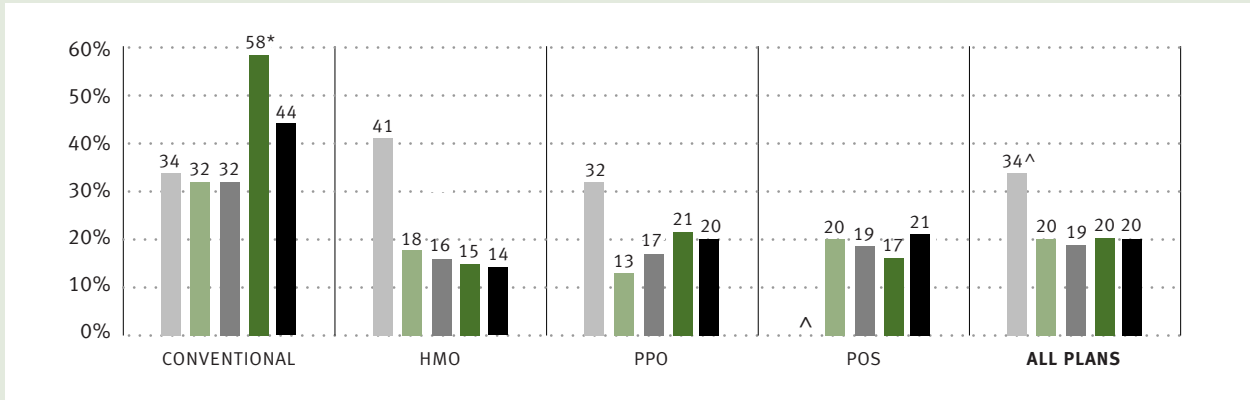


EXHIBIT 6.15

Percentage of Covered Workers in Plans Where Employer Pays Entire Cost of Family Plan Coverage, All Small Firms (3-199 Workers), 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for POS plans in 1988.

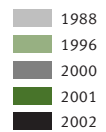
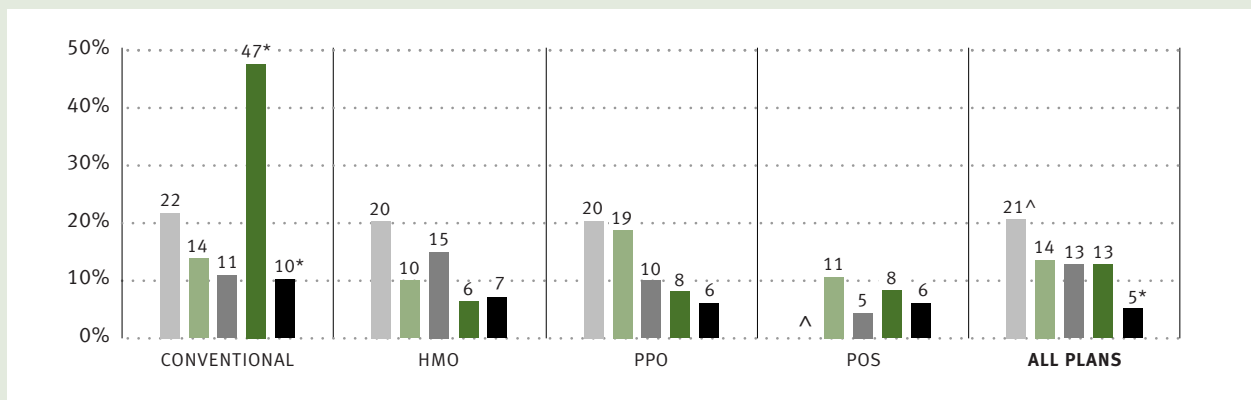


EXHIBIT 6.16

Percentage of Covered Workers in Plans Where Employer Pays Entire Cost of Family Plan Coverage, All Large Firms (200+ Workers), 1988-2002

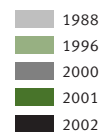


SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for POS plans in 1988.



## EXHIBIT 6.17

Percentage of Premium Paid by Firm for Typical Covered Worker in Conventional, HMO, PPO, and POS Plans, by Region, 2002

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
Northeast	86%	84%
Midwest	87	81
South	90	64*
West	91	86
<b>ALL REGIONS</b>	<b>88%</b>	<b>80%</b>
<b>HMO PLANS</b>		
Northeast	82%	76%
Midwest	85	81*
South	83	69
West	84	69
<b>ALL REGIONS</b>	<b>83%</b>	<b>74%</b>
<b>PPO PLANS</b>		
Northeast	84%	81%*
Midwest	85	76*
South	85	65*
West	87	71
<b>ALL REGIONS</b>	<b>85%</b>	<b>72%</b>
<b>POS PLANS</b>		
Northeast	82%	75%
Midwest	82	78
South	84	63*
West	85	79
<b>ALL REGIONS</b>	<b>83%</b>	<b>72%</b>
<b>ALL PLANS</b>		
Northeast	83%	78%*
Midwest	85	78*
South	84	66*
West	86	73
<b>ALL REGIONS</b>	<b>84%</b>	<b>73%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Regions by plan type.

## EXHIBIT 6.18

## Percentage of Premium Paid by Firm for Typical Covered Worker in Conventional, HMO, PPO, and POS Plans, by Industry, 2002

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
Mining/Construction/Wholesale	NSD	NSD
Manufacturing	87%	81%
Transportation/Communication/Utility	NSD	NSD
Retail	NSD	NSD
Finance	NSD	NSD
Service	90	75
State/Local Government	82*	79
Health Care	NSD	NSD
<b>ALL INDUSTRIES</b>	<b>88%</b>	<b>80%</b>
<b>HMO PLANS</b>		
Mining/Construction/Wholesale	75%	67%
Manufacturing	85	79*
Transportation/Communication/Utility	86	74
Retail	73*	67
Finance	79	67
Service	86	69
State/Local Government	89	84*
Health Care	76*	62*
<b>ALL INDUSTRIES</b>	<b>83%</b>	<b>74%</b>
<b>PPO PLANS</b>		
Mining/Construction/Wholesale	82%	67%
Manufacturing	82	79*
Transportation/Communication/Utility	86	81*
Retail	80	72
Finance	86	66
Service	87	67
State/Local Government	91*	74
Health Care	84	70
<b>ALL INDUSTRIES</b>	<b>85%</b>	<b>72%</b>
<b>POS PLANS</b>		
Mining/Construction/Wholesale	88%	66%
Manufacturing	84	82*
Transportation/Communication/Utility	74	69
Retail	76*	67
Finance	84	77
Service	84	69
State/Local Government	93*	75
Health Care	87	75
<b>ALL INDUSTRIES</b>	<b>83%</b>	<b>72%</b>
<b>ALL PLANS</b>		
Mining/Construction/Wholesale	82%	67%
Manufacturing	83	79*
Transportation/Communication/Utility	83	76
Retail	79*	71
Finance	84	70
Service	87	69*
State/Local Government	90*	78
Health Care	83	69
<b>ALL INDUSTRIES</b>	<b>84%</b>	<b>73%</b>

## SOURCE:

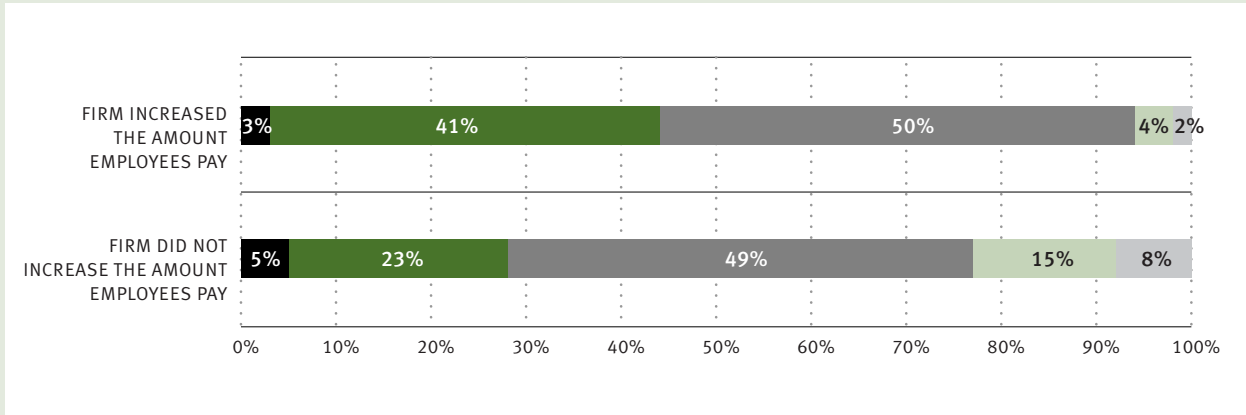
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Industries by plan type.

NSD: Not sufficient data.

EXHIBIT 6.19

Percentage of Firms That Report the Level of Difficulty Attracting and Retaining Qualified Workers Is Harder or Easier Than One Year Ago by Whether or Not the Firm Increased the Amount Employees Pay for Health Insurance, 2002\*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distributions are statistically different from one another.



EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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# Employee Cost Sharing

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SECTION

7

## EMPLOYEE COST SHARING

IN ADDITION TO PAYING A HIGHER AMOUNT FOR PREMIUMS, EMPLOYEES ARE ALSO PAYING HIGHER COST-SHARING FOR HEALTH CARE SERVICES, INCLUDING DEDUCTIBLES AND COPAYMENTS. RESEARCH HAS DEMONSTRATED THAT HIGHER COPAYS AND DEDUCTIBLES SAVE COSTS, BUT MAY ALSO DISCOURAGE USE OF NEEDED SERVICES, PARTICULARLY AMONG LOWER-INCOME INDIVIDUALS.<sup>7</sup>

IN-NETWORK DEDUCTIBLES TO SEE PROVIDERS IN PPO NETWORKS JUMPED SIGNIFICANTLY THIS YEAR. THE PERCENTAGE OF HMO ENROLLEES FACING \$20 COPAYS FOR PHYSICIAN VISITS ALSO ROSE SIGNIFICANTLY.

- ▶ In PPOs, deductibles for preferred providers increased from \$201 in 2001 to \$276 in 2002. Deductibles for single coverage in conventional plans also increased significantly – from \$195 to \$270 this year (EXHIBIT 7.1).
- ▶ Deductibles are generally lower for workers in large firms (200 or more workers) than for workers in small firms (3-199 workers) across all types of plans. For PPO preferred providers, for example, the average worker in a small firm must pay a deductible of \$311, compared to \$259 for those in large firms (EXHIBIT 7.2).
- ▶ For HMO coverage, a \$10 copayment continues to be the most common copayment amount for physician visits, applying to about half of covered workers in HMOs. About 29% of covered workers face a \$15 per visit copayment. The percentage of workers with a copayment of \$5 fell from 11% to 5% this year, while the percentage of workers facing a \$20 per visit copayment increased from 2% to 11% (EXHIBITS 7.5, 7.6).
  - *Workers enrolled in a staff or group model HMO continue to be most likely not to face copayments for office visits, at 5%, though this number is down from 10% in 2001.*
- ▶ Significant proportions of covered workers in PPOs (45%) and POS plans (40%) face coinsurance rates of 30% or more for services received from non-preferred providers. Such substantial cost-sharing for out-of-network services may substantially diminish the value of enrollees' broader choice options (EXHIBITS 7.8, 7.9).
- ▶ Tiered insurance plans, in which members must pay more to use certain physicians and hospitals based on their cost, and in some cases their quality, remain relatively uncommon but are growing in use. Five percent of workers in HMOs and PPOs are in such tiered plans, as are 9% of workers in POS plans (EXHIBIT 7.4).

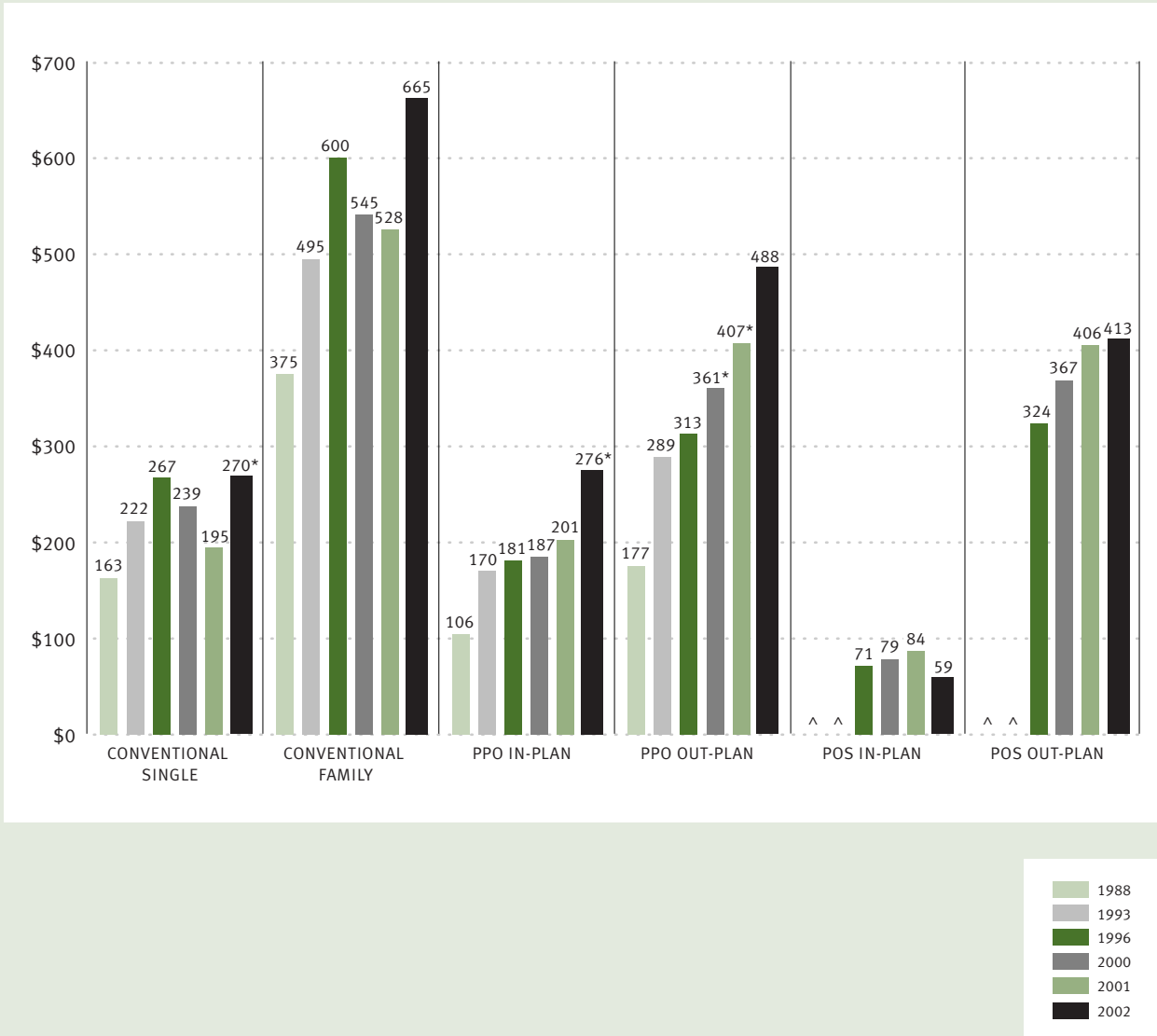
### NOTE:

<sup>7</sup> Willard G. Manning, Joseph P. Newhouse, Naihua Duan, Emmett Keeler, Arleen Leibowitz, and M. Susan Marquis, "Health Insurance and the Demand for Medical Care: Results from a Randomized Experiment," *American Economic Review*, June 1987, 77:3, pp. 251-277. Kathleen N. Lohr, Robert H. Brook, Caren J. Kamberg, George A. Goldberg, Arleen Leibowitz Joan Keeseey, David Reboussin, and Joseph P. Newhouse, "Use of Medical Care in the RAND Health Insurance Experiment: Diagnosis and Service Specific Analyses in a Randomized Controlled Trial," *Medical Care*, 24: 9, Supplement, September 1986, pp.



EXHIBIT 7.1

Average Annual Deductibles for Single Coverage in Conventional, PPO, and POS Plans, 1988-2002



SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for POS plans in 1988 and 1993.

## EXHIBIT 7.2

## Average Annual Deductible for Typical Covered Worker, by Firm Size and Plan Type, 2002

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
All Small Firms (3-199 Workers)	\$314	\$674
Midsize (200-999 Workers)	196	511
Large (1,000-4,999 Workers)	280	683
Jumbo (5,000+ Workers)	273	722
<b>ALL FIRM SIZES</b>	<b>\$270</b>	<b>\$665</b>
<b>PPO PLANS</b>		
All Small Firms (3-199 Workers)	\$311	\$527
Midsize (200-999 Workers)	221	415
Large (1,000-4,999 Workers)	182*	390*
Jumbo (5,000+ Workers)	310	529
<b>ALL FIRM SIZES</b>	<b>\$276</b>	<b>\$488</b>
<b>POS PLANS</b>		
All Small Firms (3-199 Workers)	\$105*	\$470
Midsize (200-999 Workers)	64	387
Large (1,000-4,999 Workers)	38	368
Jumbo (5,000+ Workers)	22*	385
<b>ALL FIRM SIZES</b>	<b>\$ 59</b>	<b>\$413</b>

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms within a type.

Preferred providers: providers that are part of a plan's approved list of doctors and hospitals; consumers generally pay lower cost sharing when using these providers.

Non-preferred providers: providers that are not part of a plan's approved list of doctors and hospitals.

## EXHIBIT 7.3

## Average Annual Deductible for Typical Covered Worker in Conventional, PPO, and POS Plans, by Region, 2002

	<i>Single Coverage</i>	<i>Single Coverage</i>
<b>CONVENTIONAL PLANS</b>		
Northeast	\$202	\$531
Midwest	274	642
South	321	880*
West	286	675
<b>ALL REGIONS</b>	<b>\$270</b>	<b>\$665</b>
	<i>Single Coverage Preferred Provider</i>	<i>Single Coverage Non-Preferred Provider</i>
<b>PPO PLANS</b>		
Northeast	\$150*	\$437
Midwest	260	449
South	318	544
West	352	455
<b>ALL REGIONS</b>	<b>\$276</b>	<b>\$488</b>
<b>POS PLANS</b>		
Northeast	\$38	\$424
Midwest	96	441
South	71	392
West	45	402
<b>ALL REGIONS</b>	<b>\$59</b>	<b>\$413</b>

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

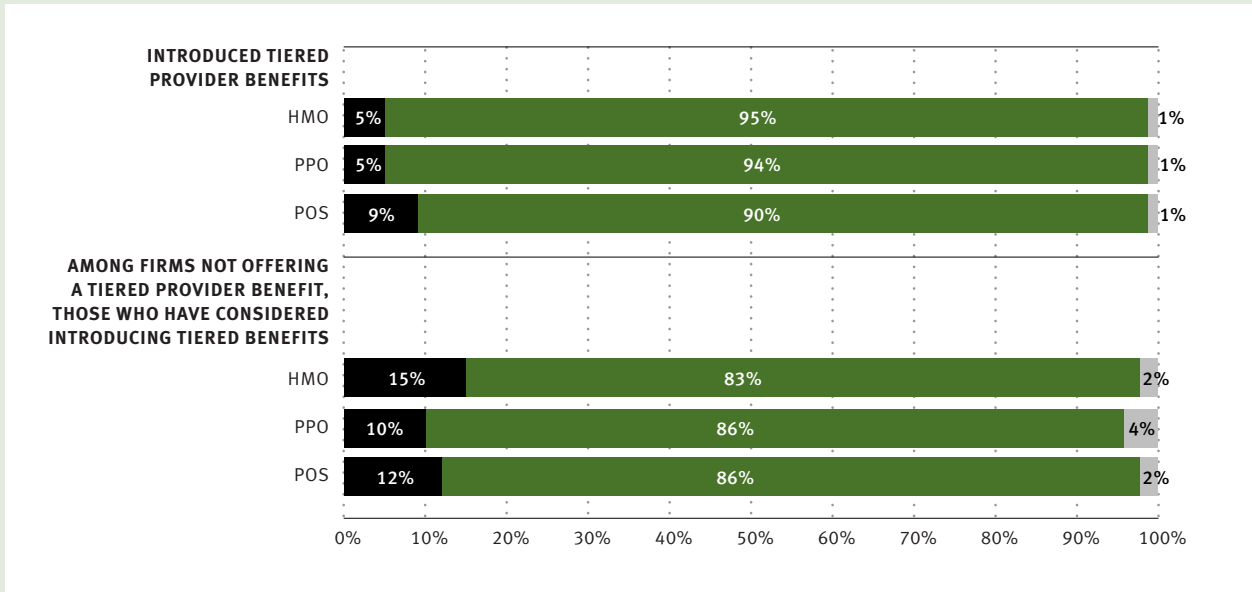
\* Estimate is statistically different from All Regions within a type.

Preferred providers: providers that are part of a plan's approved list of doctors and hospitals; consumers generally pay lower cost sharing when using these providers.

Non-preferred providers: providers that are not part of a plan's approved list of doctors and hospitals.

EXHIBIT 7.4

Percentage of Covered Workers in HMO, PPO, and POS Plans Whose Plan Has Introduced or Has Considered Introducing a Tiered Cost-Sharing Arrangement for Doctor or Hospital Visits, 2002

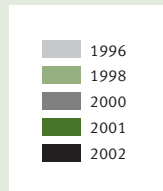
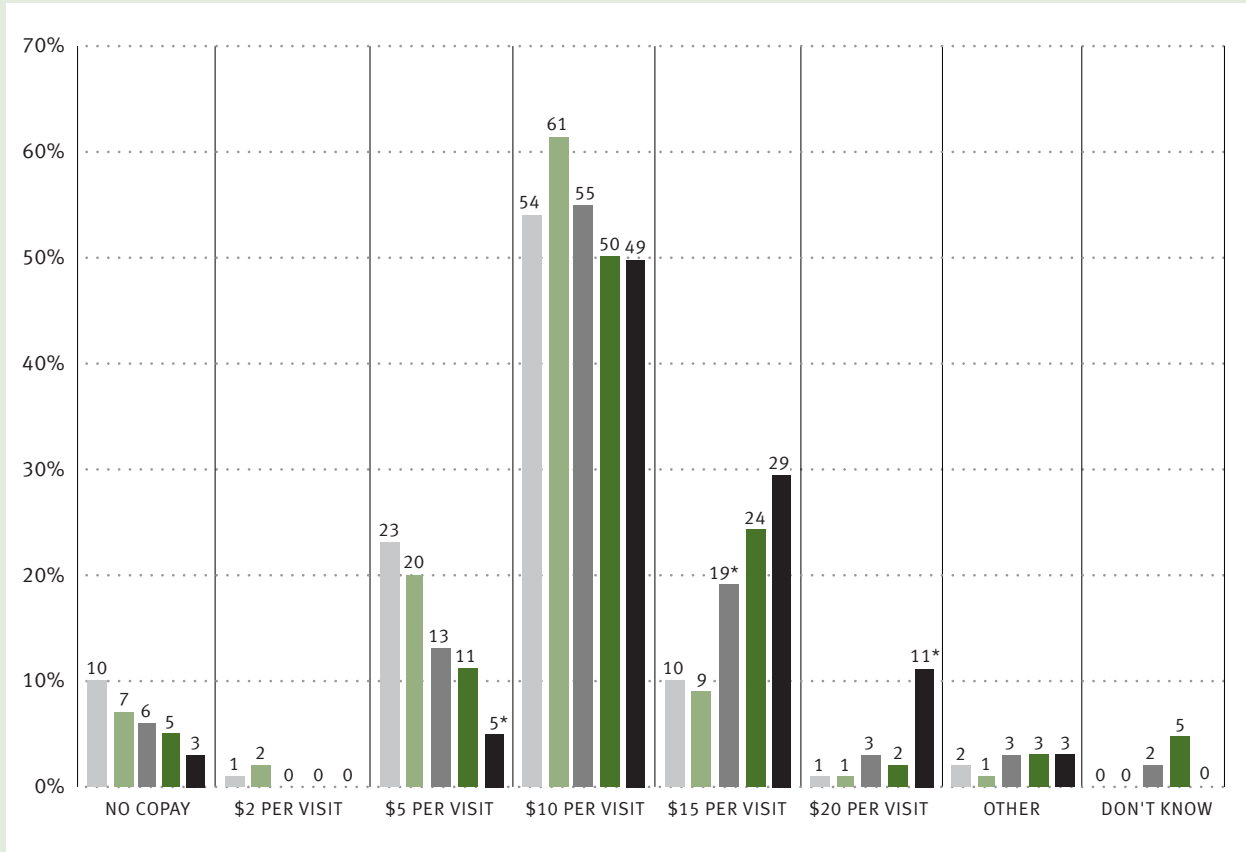


SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

EXHIBIT 7.5

Percentage of Covered Workers Facing HMO Copayments for Physician Visits, 1996-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002.  
 KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

## EXHIBIT 7.6

## Percentage of Covered Workers Facing HMO Copayments for Physician Visits, by HMO Type, 2002\*

	<i>IPA</i>	<i>Staff/Group</i>	<i>Mixed</i>	<i>All HMO Types</i>
No Copayment	1%	5%	4%	3%
\$2 Per Visit	0	0	0	0
\$5 Per Visit	5	14	3	5
\$10 Per Visit	51	38	49	49
\$15 Per Visit	33	33	22	29
\$20 Per Visit	5	9	19	11
Other	4	1	2	3
Don't Know	0	0	0	0
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distributions from All HMO Types.

IPA (Independent Practice Association) model HMO: an HMO model in which the HMO contracts with a physician organization, which, in turn, contracts with independent physicians. The IPA physicians practice in their own offices and continue to see fee-for-service patients.

Staff model HMO: a model in which the HMO employs health care providers directly. The providers are employees of the HMO, and provide care exclusively to HMO members.

Group model HMO: an HMO in which the plan contracts exclusively with a single group of physicians.

## EXHIBIT 7.7

## Percentage of Covered Workers Facing Various Coinsurance Rates in Conventional Plans, by Firm Size, 2002\*

	<i>All Small Firms (3-199 Workers)</i>	<i>Midsized (200-999 Workers)</i>	<i>Large (1,000-4,999 Workers)</i>	<i>Jumbo (5,000+ Workers)</i>	<i>All Firm Sizes</i>
0%	16%	10%	3%	0%	7%
10%	1	19	5	2	5
15%	1	4	0	0	1
20%	50	51	85	93	72
25%	0	0	4	3	2
30%	7	0	1	0	2
Rate Varies	0	0	0	2	1
Other	22	15	2	0	9
Don't Know	4	0	0	0	1
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distributions from All Firms.

Coinsurance rates: a cost sharing arrangement in which a member pays a specified proportion of the bills for services received.

## EXHIBIT 7.8

## Percentage of Covered Workers Facing Coinsurance Rates and Copayments in PPO Plans, by Firm Size, 2002

	All Small Firms (3-199 Workers)	Midsize (200-999 Workers)	Large (1,000-4,999 Workers)	Jumbo (5,000+ Workers)	All Firm Sizes
<i>Preferred Provider</i>					
<b>COINSURANCE RATE WORKER PAYS</b>					
0%	15%	2%	9%	6%	8%
10%	35	38	35	39	37
15%	0	2	7	5	4
20%	41	51	43	48	46
25%	4	4	0	1	2
30%	0	1	0	1	1
40%	0	0	4	0	1
Varies	1	1	0	0	0
Other	1	0	0	0	0
Don't Know	4	0	0	1	1
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>COPAYMENTS WORKER PAYS</b>					
\$5	4%	4%	0%	1%	2%
\$10	29	39	41	36	35
\$15	29	36	41	25	31
\$20	29	19	12	30	25
Other	9	3	7	8	7
Don't Know	0	0	0	0	0
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%*</b>	<b>100%</b>	<b>100%</b>
<i>Non-Preferred Provider</i>					
<b>COINSURANCE RATE WORKER PAYS</b>					
0%	6%	3%	5%	4%	5%
10%	5	6	5	2	4
15%	0	0	0	1	0
20%	34	30	22	30	30
25%	3	3	1	5	4
30%	17	38	39	27	27
35%	0	2	3	2	2
40%	16	13	15	17	16
Varies	0	0	1	3	1
Other	3	4	9	6	5
Don't Know	15	2	0	2	6
<b>TOTAL</b>	<b>100%*</b>	<b>100%</b>	<b>100%*</b>	<b>100%</b>	<b>100%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.

NSD: Not sufficient data.

Preferred providers: providers that are part of a plan's approved list of doctors and hospitals; consumers generally pay lower cost sharing when using these providers.

Non-preferred providers: providers that are not part of a plan's approved list of doctors and hospitals.



## EXHIBIT 7.9

## Percentage of Covered Workers Facing Coinsurance Rates and Copayments in POS Plans, by Firm Size, 2002\*

	<i>All Small Firms (3-199 Workers)</i>	<i>Midsize (200-999 Workers)</i>	<i>Large (1,000-4,999 Workers)</i>	<i>Jumbo (5,000+ Workers)</i>	<i>All Firm Sizes</i>
<i>Preferred Provider</i>					
<b>COINSURANCE RATE WORKER PAYS</b>					
0%	NSD	NSD	NSD	NSD	11%
10%	NSD	NSD	NSD	NSD	24
15%	NSD	NSD	NSD	NSD	2
20%	NSD	NSD	NSD	NSD	42
25%	NSD	NSD	NSD	NSD	3
30%	NSD	NSD	NSD	NSD	10
Varies	NSD	NSD	NSD	NSD	3
Other	NSD	NSD	NSD	NSD	1
Don't Know	NSD	NSD	NSD	NSD	4
<b>TOTAL</b>	<b>NSD</b>	<b>NSD</b>	<b>NSD</b>	<b>NSD</b>	<b>100%</b>
<b>COPAYMENTS WORKER PAYS</b>					
\$5	3	6	1	7	5
\$10	41	38	44	43	42
\$15	35	30	37	35	34
\$20	15	18	17	7	12
Other	6	8	1	1	3
Don't Know	1	0	0	8	3
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<i>Non-Preferred Provider</i>					
<b>COINSURANCE RATE WORKER PAYS</b>					
0%	4%	8%	9%	4%	5%
10%	3	2	2	0	2
20%	37	33	23	24	30
25%	4	1	1	7	4
30%	20	28	29	32	27
35%	2	0	2	0	1
40%	9	7	18	16	12
Varies	0	1	2	0	0
Other	3	7	6	10	6
Don't Know	19	13	9	7	12
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

NSD: Not sufficient data.

Preferred providers: providers that are part of a plan's approved list of doctors and hospitals; consumers generally pay lower cost sharing when using these providers.

Non-preferred providers: providers that are not part of a plan's approved list of doctors and hospitals.

\* Tests found no statistically different distributions from All Firms.



EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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# Health Benefits

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SECTION

8

## HEALTH BENEFITS

BENEFIT PACKAGES IN EMPLOYER-BASED HEALTH PLANS HAVE GROWN MORE GENEROUS OVER THE PAST TWENTY YEARS, MOST NOTABLY WITH REGARD TO PRESCRIPTION DRUG COVERAGE AND PREVENTIVE SERVICES. THE SHIFT FROM CONVENTIONAL TO MANAGED CARE PLANS EXPLAINS MUCH OF THIS INCREASE. MANAGED HEALTH PLANS HAVE HISTORICALLY EMPHASIZED PREVENTIVE CARE SUCH AS PHYSICALS AND MAMMOGRAPHY SCREENINGS AND COMPREHENSIVE CARE INCLUDING COVERAGE FOR PRESCRIPTIONS DRUGS.

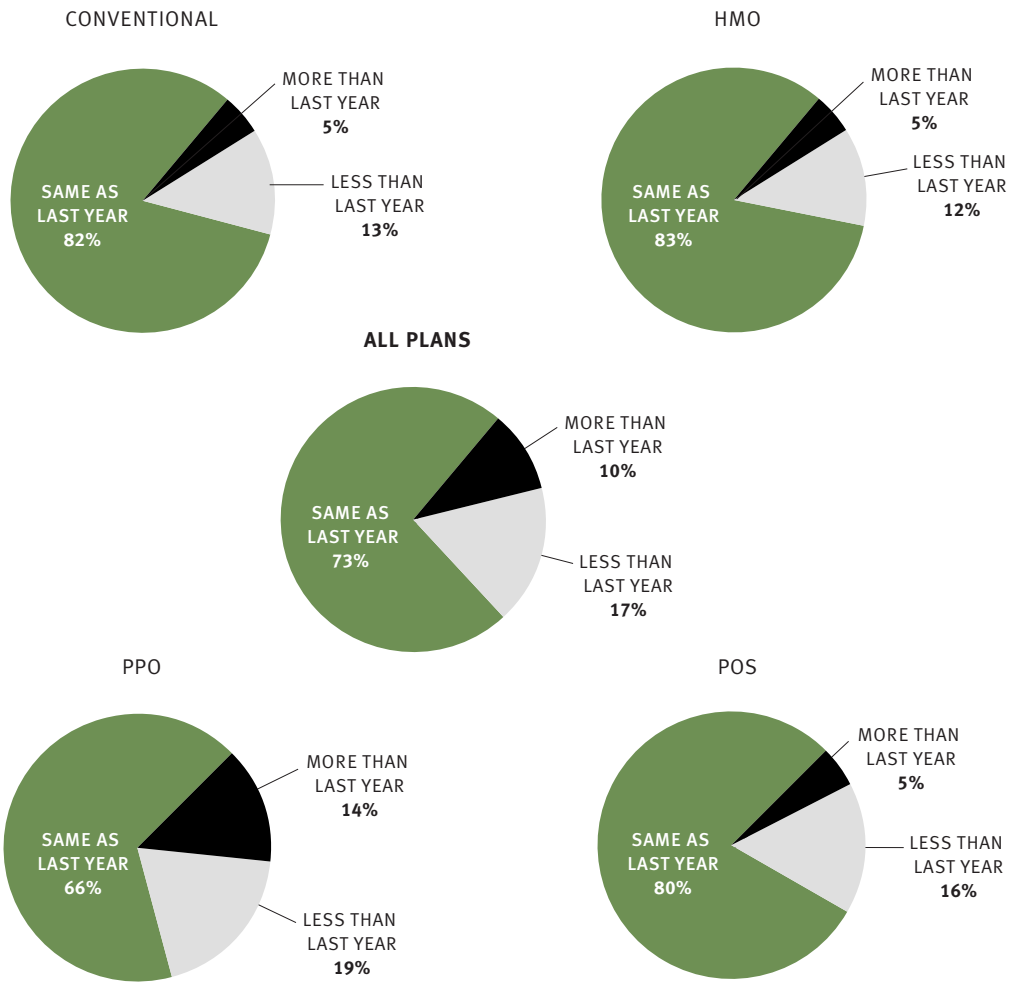
HOWEVER, IN 2002 FOR THE FIRST TIME IN SEVERAL YEARS, THE PERCENTAGE OF WORKERS IN FIRMS THAT REPORT A DECREASE IN THE LEVEL OF BENEFITS OFFERED IS GREATER THAN THE PERCENTAGE REPORTING INCREASES.

- ▶ Most workers experienced no change in benefits in 2002. Depending on the type of health plan, between 66% and 83% of covered workers experienced no change in the level of their benefits in the past year. This year, a greater number of firms report a decrease in benefits (17%) than those that report benefit increases (10%) (EXHIBIT 8.1).
- *The percentage of firms reporting benefit reductions has been rising over the last several years, from 7% of all firms in 2000 to 17% of all firms in 2002 (EXHIBIT 8.2).*
- ▶ The vast majority of health plans offer benefits that might be considered “standard coverage”, including: prescription drugs, prenatal care, an annual adult physical, an annual visit to the obstetrician/gynecologist, well-baby visits, and outpatient and in-patient mental health services (EXHIBITS 8.3, 8.4).
- *In general, larger firms offer somewhat more generous benefits than smaller firms.*
- *HMO and POS plans tend to offer the most comprehensive benefits packages, while conventional plans provide less comprehensive offerings. HMOs, in particular, are most likely to offer preventive care. Among covered workers in HMOs, 98% are covered for annual adult physicals and 99% have obstetrics/gynecology coverage. In contrast, in PPO plans, 88% are covered for adult physicals and 93% are covered for visits to the obstetrician/gynecologist.*
- *All types of plans are less likely to cover oral contraceptives than other types of prescription drugs (99%), although 78% of covered workers now have coverage for oral contraceptives.*
- *Across all plan types, only 32% of firms cover acupuncture, while 80% cover chiropractic services, virtually unchanged from 2000.*
- ▶ The vast majority of workers in PPO and conventional plans have the protection of an out-of-pocket maximum for health care expenses. There was little change in these limits from 2000 to 2002 (EXHIBITS 8.5, 8.6).
- ▶ Lifetime limits on benefits – the maximum amount of benefits a plan will pay for an employee over his or her lifetime – are common, though less so in the last few years. Just under half (44%) of workers in conventional plans have a lifetime limit on coverage, as do 67% of those in PPO plans (EXHIBITS 8.7, 8.8).

- *The percentage of workers with no lifetime limits has increased since 2000, from 21% to 29% for conventional plans, and from 19% to 24% for PPO plans (EXHIBITS 8.7, 8.8).*
- *Only 1% of workers in conventional plans and 2% of workers in PPO plans have a lifetime limit of \$250,000 or less (EXHIBIT 8.7).*
- ▶ *Concurrent utilization review (UR) for inpatient care is prevalent across plan types – 62% of firms report that they require UR, although 19% report that they are uncertain whether or not UR is required. The percentage of employees in indemnity, PPO and POS plans subject to UR for hospital stays has declined from 79% in 1996 to 61% in 2002 (EXHIBIT 8.9).*
- ▶ *Limits on benefits for specific diseases are quite rare; across the four plan types, only 6% to 8% of plans place disease-specific limitations on benefits (EXHIBIT 8.10).*

EXHIBIT 8.1

How Levels of Benefits for Covered Workers Compare to Last Year, by Plan Type, 2002\*



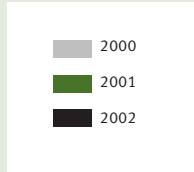
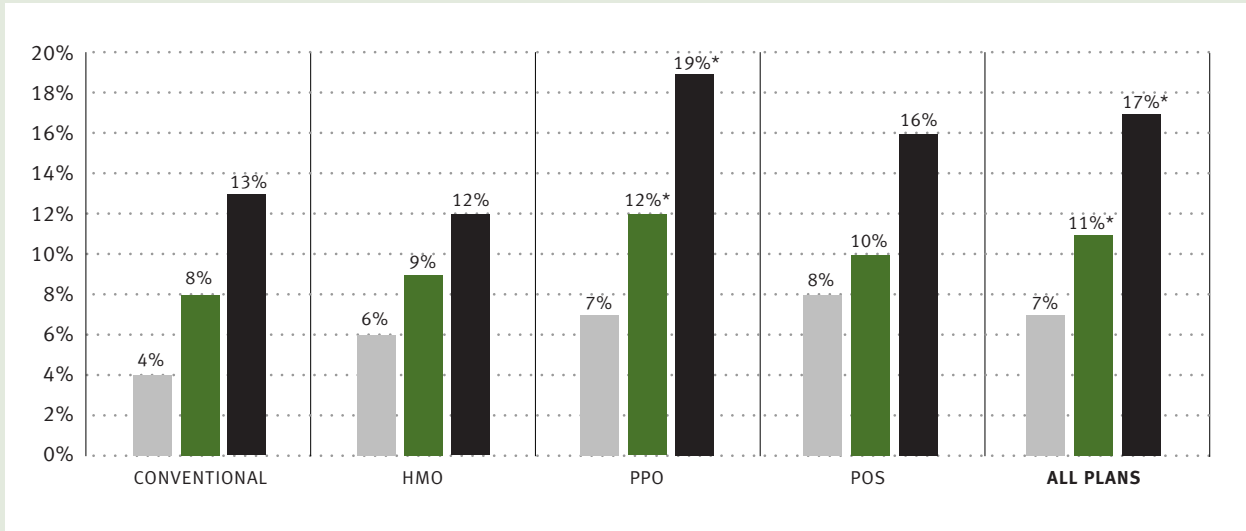
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distributions from All Plans.

EXHIBIT 8.2

Percentage of Covered Workers in Firms Reporting a Decrease in the Level of Benefits Compared to the Previous Year, 2000, 2001 and 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002.

\* Estimate is statistically different from the previous year shown: 2000-2001, 2001-2002.

## EXHIBIT 8.3

## Percentage of Covered Workers With Selected Benefits, by Firm Size, 2002

	<i>All Small Firms (3-199 Workers)</i>	<i>All Large Firms (200+ Workers)</i>	<i>All Firms</i>
<b>ALL PLANS</b>			
Adult Physicals	90%	90%	90%
Prescription Drugs	99	99	99
Outpatient Mental	94*	99*	98
Inpatient Mental	89*	99*	96
Annual OB/GYN Visit	94	93	93
Prenatal Care	94	98	97
Oral Contraceptives	62*	85*	78
Well-Baby Care	91	95	94
Acupuncture	28	34	32
Chiropractic	69*	85	80

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms.



## EXHIBIT 8.4

## Percentage of Covered Workers in Conventional, HMO, PPO, and POS Plans With Selected Benefits, by Firm Size, 2002

	<i>All Small Firms (3-199 Workers)</i>	<i>All Large Firms (200+ Workers)</i>	<i>All Firms</i>
<b>CONVENTIONAL PLANS</b>			
Adult Physicals	71%	65%	67%
Prescription Drugs	92	99	97
Outpatient Mental	87	99	96
Inpatient Mental	82	99	94
Annual OB/GYN Visit	75	74	74
Prenatal Care	83	79	80
Oral Contraceptives	32	46	42
Well-Baby	68	70	69
Acupuncture	34	42	39
Chiropractic	83	78	79
<b>HMO PLANS</b>			
Adult Physicals	93%	99%	98%
Prescription Drugs	98	99	99
Outpatient Mental	93	99	98
Inpatient Mental	90*	99	97
Annual OB/GYN Visit	98	100	99
Prenatal Care	96	100	99
Oral Contraceptives	68*	89	85
Well-Baby	94	100*	98
Acupuncture	19	28	26
Chiropractic	58*	75	72
<b>PPO PLANS</b>			
Adult Physicals	89%	88%	88%
Prescription Drugs	100	100	100
Outpatient Mental	93	99*	97
Inpatient Mental	88*	99*	96
Annual OB/GYN Visit	94	93	93
Prenatal Care	94*	99*	98
Oral Contraceptives	63*	82	76
Well-Baby	90	95	94
Acupuncture	31	34	33
Chiropractic	75*	89	85
<b>POS PLANS</b>			
Adult Physicals	94%	94%	94%
Prescription Drugs	100	99	99
Outpatient Mental	96	98	98
Inpatient Mental	91	97	95
Annual OB/GYN Visit	95	96	96
Prenatal Care	94	98	97
Oral Contraceptives	61*	90*	80
Well-Baby	94	98	97
Acupuncture	30	39	35
Chiropractic	59*	86*	76

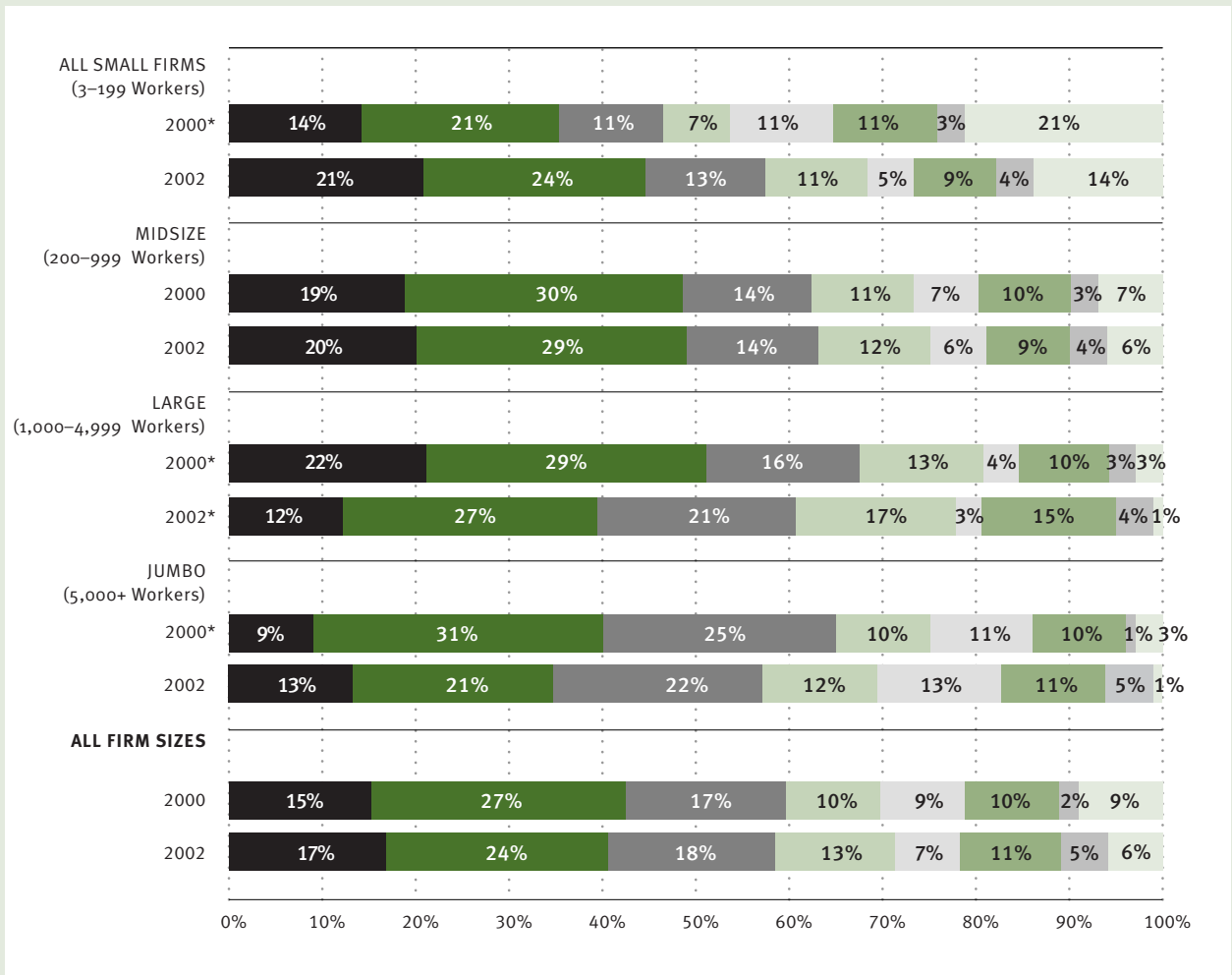
## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms within a plan type

EXHIBIT 8.5

Maximum Out-of-Pocket Liability for an Individual With Single Coverage in PPO Plans, by Firm Size, 2000 and 2002



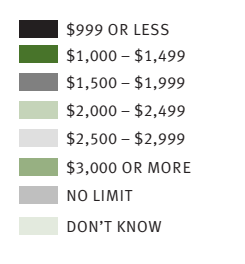
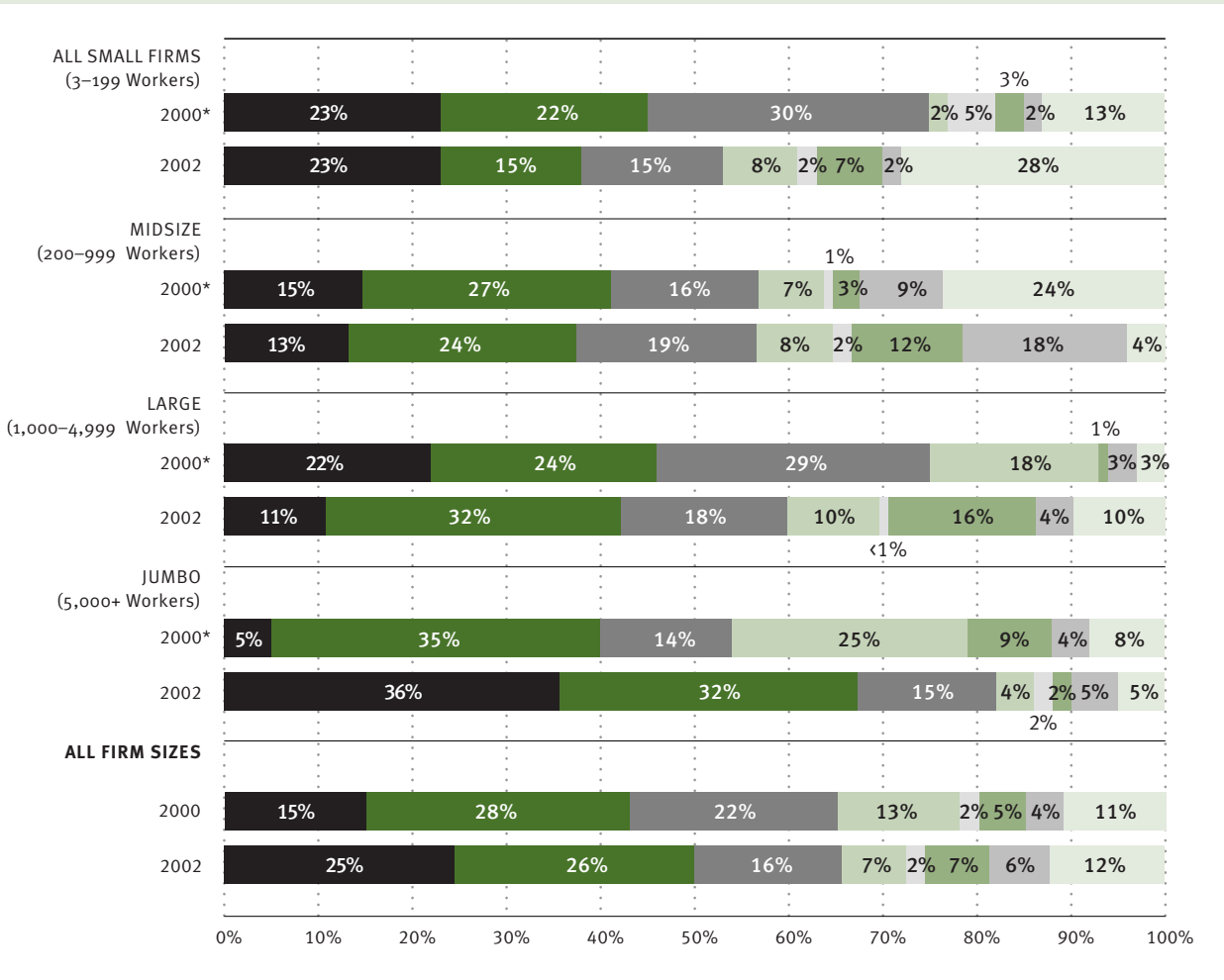
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002.

\* Distribution is statistically different from All Firms by year.

EXHIBIT 8.6

Maximum Out-of-Pocket Liability for an Individual With Single Coverage in Conventional Plans, by Firm Size, 2000 and 2002



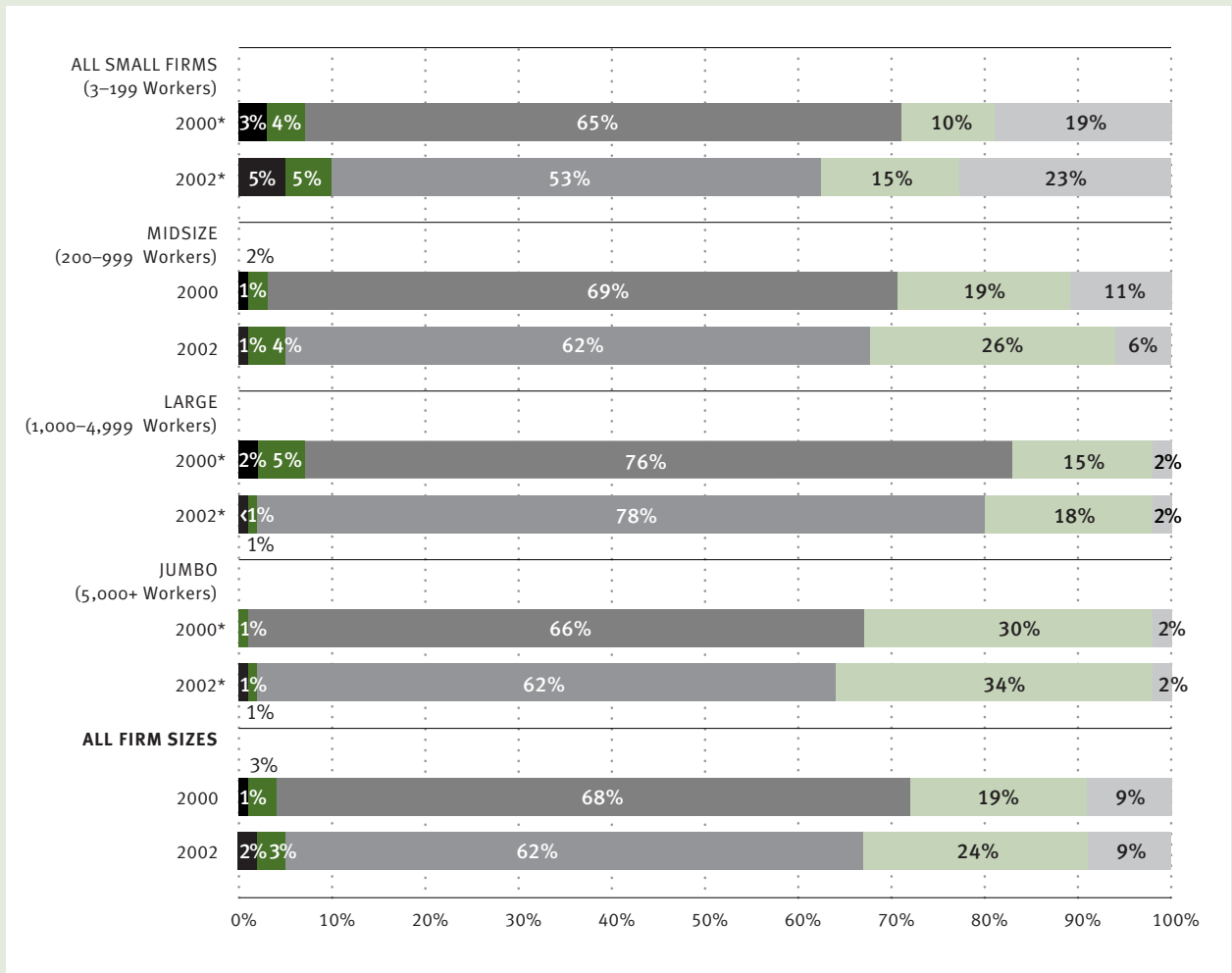
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002.

\* Distribution is statistically different from All Firms by year.

EXHIBIT 8.7

Maximum Lifetime Benefit Payable to an Individual With Single Coverage in PPO Plans, by Firm Size, 2000 and 2002



\$250,000 OR LESS  
 \$250,001 - \$999,999  
 ONE MILLION OR MORE  
 UNLIMITED  
 DON'T KNOW

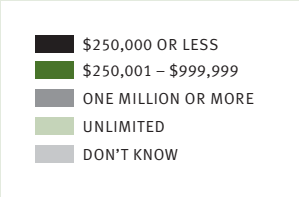
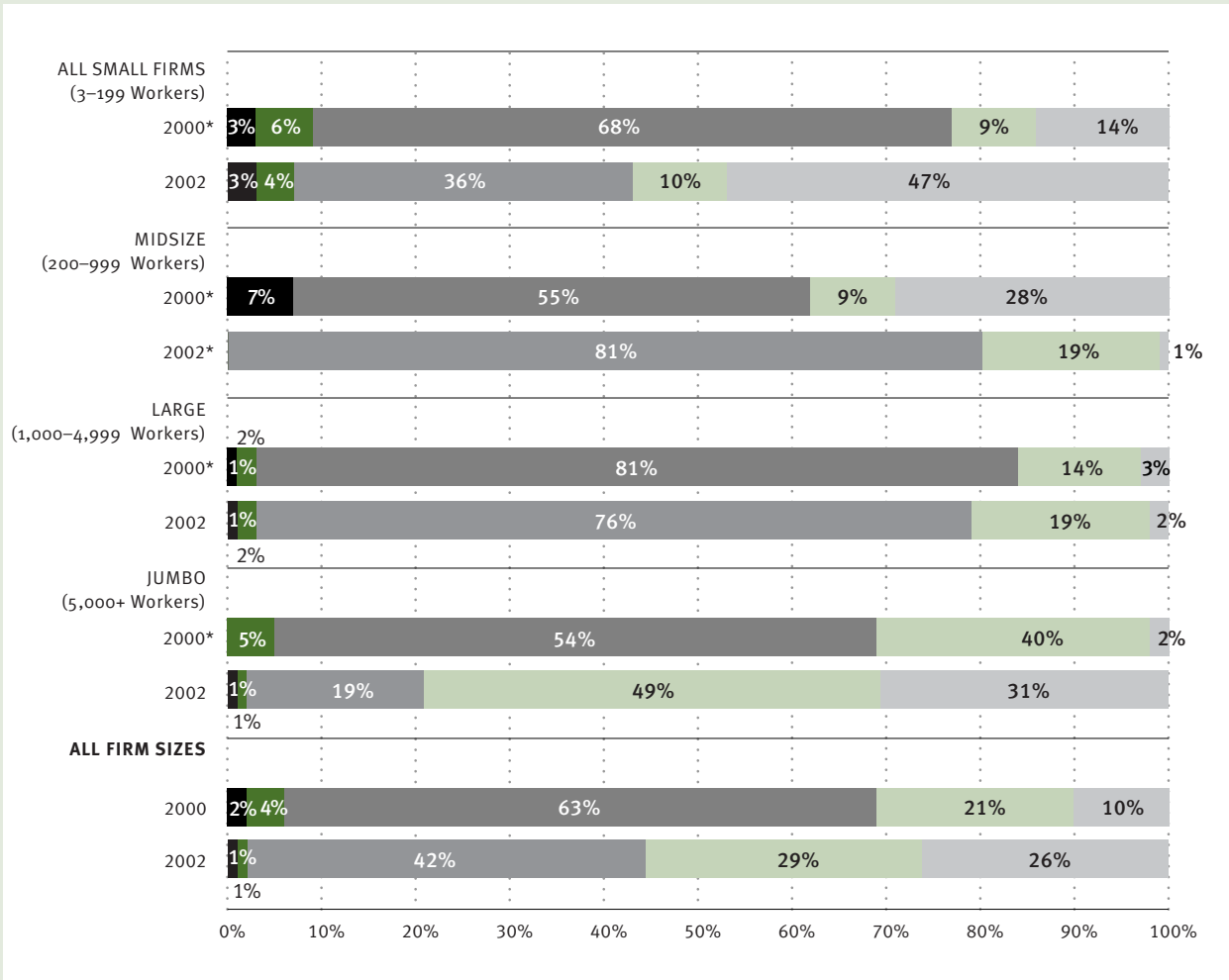
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002.

\* Distribution is statistically different from All Firms by year.

EXHIBIT 8.8

Maximum Lifetime Benefit Payable to an Individual With Single Coverage in Conventional Plans, by Firm Size, 2000 and 2002



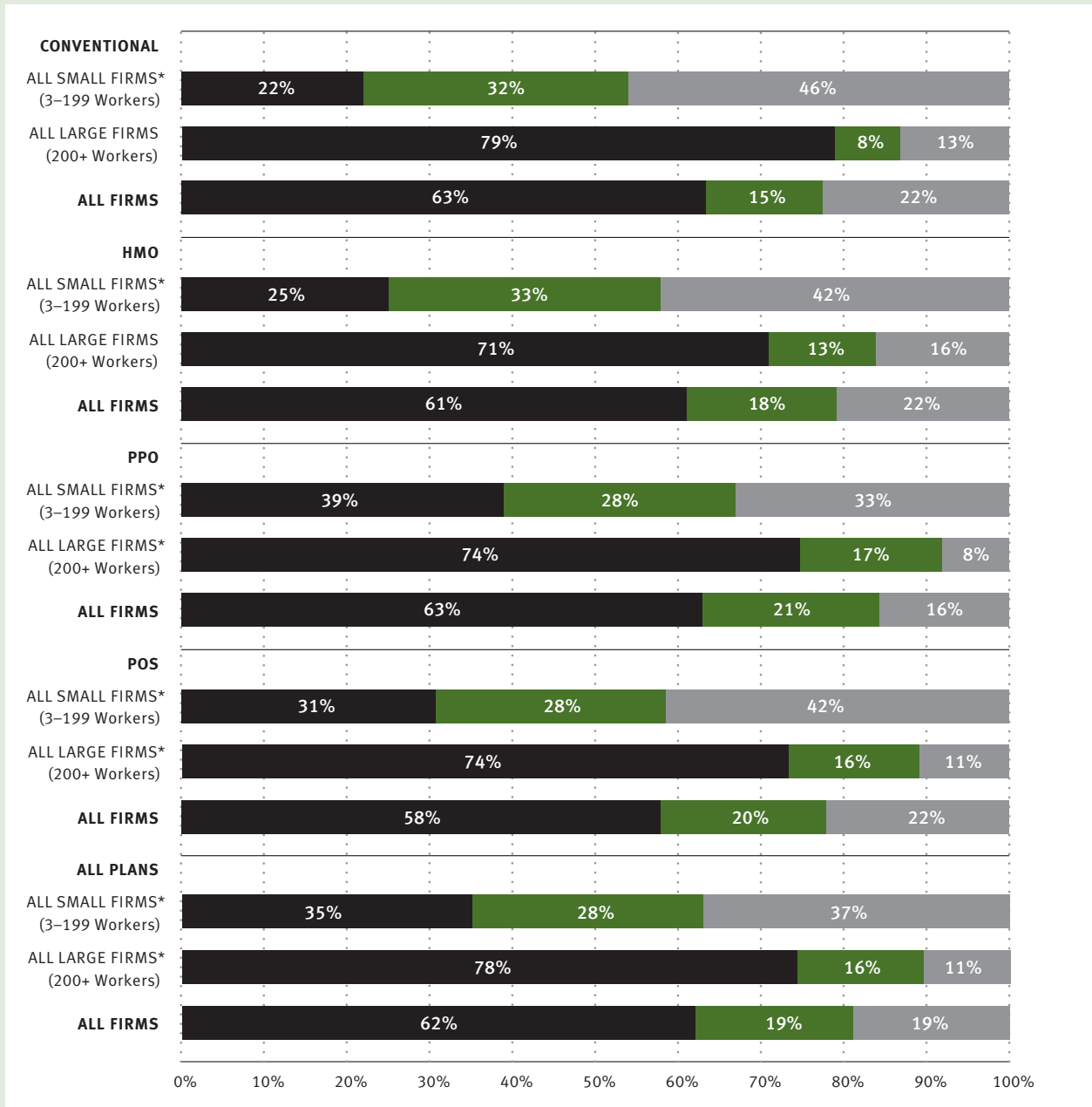
SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002.

\* Distribution is statistically different from All Firms by year.

EXHIBIT 8.9

Percentage of Workers in Firms That Report Concurrent Utilization Review for Inpatient Care, by Plan Type, 2002



SOURCE :

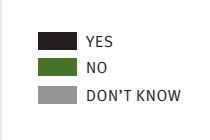
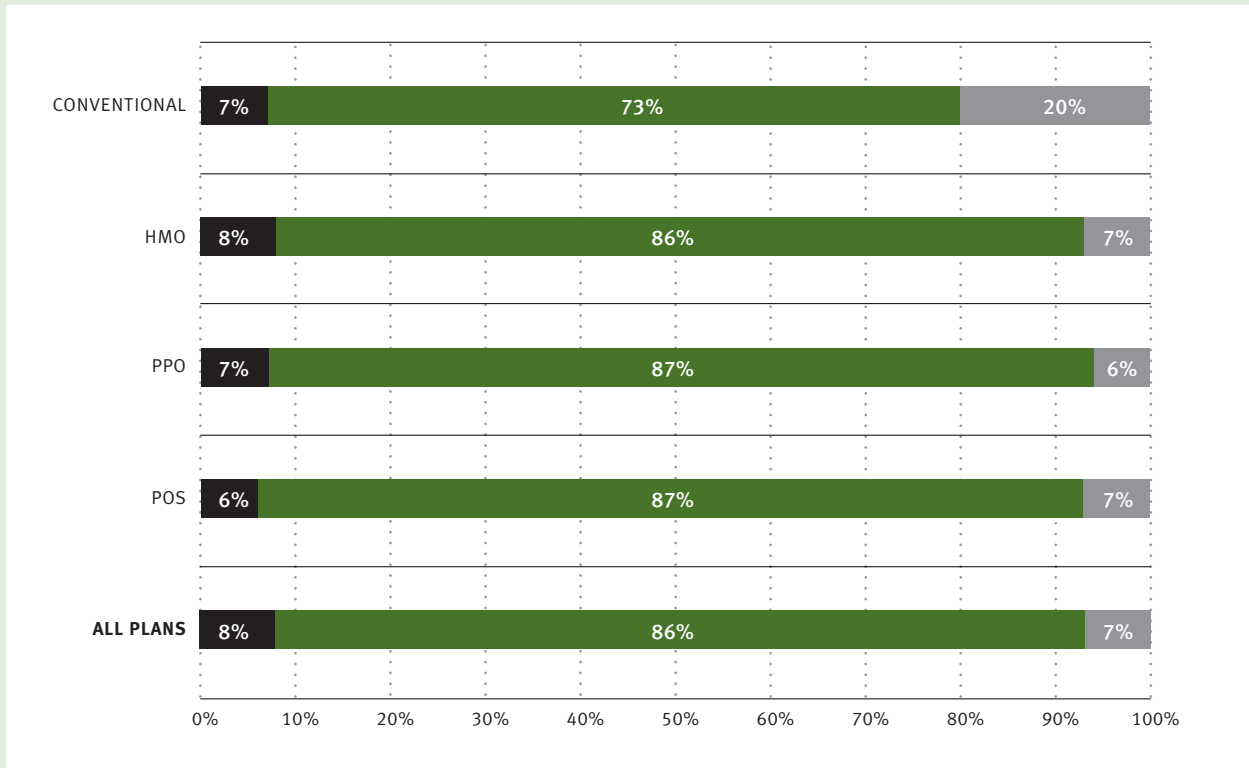
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

YES  
 NO  
 DON'T KNOW

\* Distribution is statistically different from All Firms by Plan Type.

EXHIBIT 8.10

Percentage of Workers in Firms That Report a Limit on Benefits for Specific Diseases, by Plan Type, 2002\*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distributions by Plan Type.





EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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Prescription Drug  
and Mental  
Health Benefits

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SECTION

9

## PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS

OVER THE PAST FEW YEARS, EMPLOYERS HAVE GIVEN SIGNIFICANT ATTENTION TO WAYS TO CONTROL THE INCREASING COST OF PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS. EMPLOYERS HAVE UTILIZED A VARIETY OF STRATEGIES TO REDUCE THEIR EXPENSES, INCLUDING COST-SHARING ARRANGEMENTS UNDER WHICH THE WORKER IS GIVEN AN INCENTIVE TO SELECT LESS EXPENSIVE DRUGS, AND INCREASING DRUG COPAYMENTS (COPAYS), WHICH DIRECTLY SHIFTS COSTS TO WORKERS. THIS YEAR, MORE WORKERS FACE FINANCIAL INCENTIVES TO ELECT GENERIC DRUGS, AS WELL AS HIGHER PRESCRIPTION COPAYS, ESPECIALLY FOR NON-PREFERRED DRUGS.

PRESCRIPTION DRUG AND MENTAL HEALTH "CARVE OUTS," WHERE HEALTH PLANS PROVIDE SERVICES THROUGH SEPARATE ADMINISTRATIVE ARRANGEMENTS IN AN ATTEMPT TO BETTER CONTROL SPENDING, ARE OTHER COMMON FORMS OF COST MANAGEMENT.

### PRESCRIPTION DRUG BENEFITS

► Prescription drugs continue to be a standard benefit provided to covered workers (EXHIBITS 8.3, 8.4). To combat rising prices, firms are doing more to encourage use of generic drugs and preferred brand name drugs.

- The use of three-tier cost-sharing arrangements, where a worker faces one copay for generic drugs, a higher one for preferred drugs (brand name drugs with no generic substitutes), and an even higher one for non-preferred drugs (brand name drugs with generic substitutes) has increased over the past two years, growing from 29% of covered workers in 2000 to 57% in 2002 (EXHIBIT 9.1).

*Over the same timeframe, two-tier cost-sharing arrangements (different payment levels for generic and brand name drugs), declined from 49% to 28% of covered workers. The prevalence of plans that charge workers the same amount regardless of the type of drug purchased has also declined.*

- The majority of workers in conventional, HMO, PPO, and POS plans have either a two-tier or three-tier cost-sharing formula for prescription drugs (EXHIBIT 9.2).
- The average copayment requirement for employees when buying a non-preferred drug (brand name drug when a generic is available) has risen from \$16 in 2000 to \$26 in 2002 (EXHIBIT 9.3).

- Copays average \$9 for generics, \$17 for preferred drugs, and \$26 for non-preferred drugs, with little variation by plan type. Average copays for non-preferred drugs have increased over the last year, especially in PPO plans, where the copay for such drugs increased from \$21 in 2001 to \$27 in 2002.

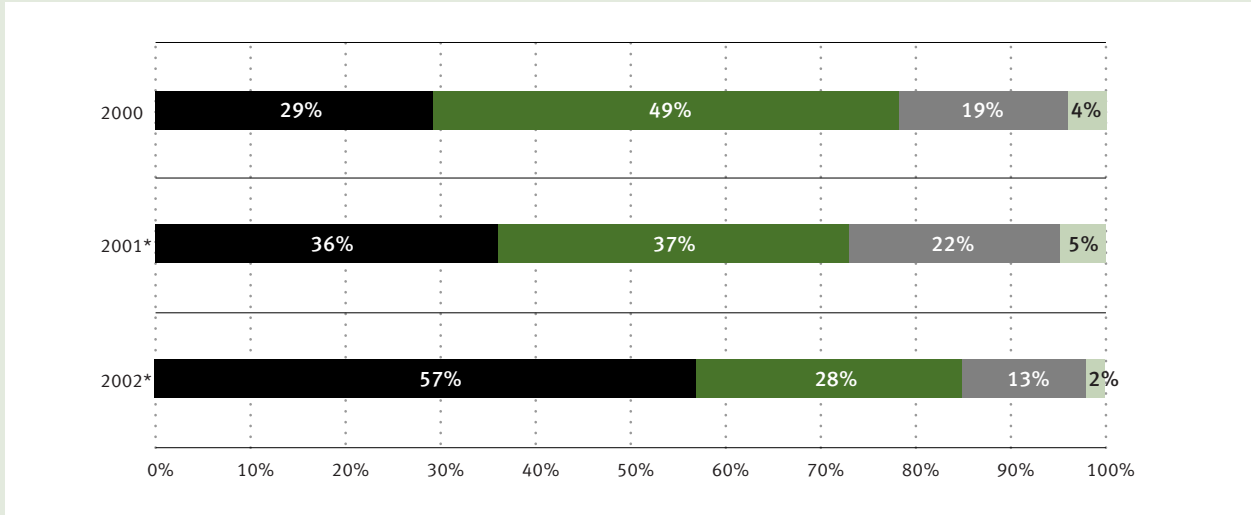
- For workers with coinsurance rather than copays, cost-sharing levels average 21% for generic drugs, 24% for preferred drugs, and 28% for non-preferred drugs (EXHIBIT 9.4).

► Sixty-nine percent of covered workers are in plans that use a formulary that restricts which drugs will be covered, up from 58% in 2001 and 43% in 2000 (EXHIBITS 9.5, 9.6).

- ▶ Thirty percent of covered workers are in firms that “carve out” prescription drugs and provide them separately from their standard health plans, a similar percentage to last year (EXHIBITS 9.7, 9.8).
    - Among these firms, employers reported that prescription costs for family coverage increased 16% – an even faster rate of increase than overall premium growth.
- MENTAL HEALTH BENEFITS**
- ▶ Health plans continue to limit the use of mental health services.
    - Nearly one-third (32%) of covered workers have coverage which restricts benefits for outpatient mental health to 20 or fewer visits per year. Just 12% of covered workers have coverage which provides unlimited outpatient mental health visits (EXHIBIT 9.11).
    - About half of covered workers have coverage which limits inpatient mental health benefits to 30 or fewer days per year. Eighteen percent of covered workers have coverage for unlimited inpatient mental health days (EXHIBIT 9.12).
  - ▶ The percentage of covered workers whose mental health benefits are carved out – provided through administrative arrangements separate from the employer health plan – declined slightly this year, from 22% in 2001 to 16% in 2002. Mental health carve outs are the most common among workers covered by conventional plans and POS plans (34%) (EXHIBIT 9.9).
    - Covered workers in small firms (3-199 workers) are less likely to have mental health benefits carved out from their plan (8%) than those in large firms with 200 or more workers (20%) (EXHIBIT 9.10).

EXHIBIT 9.1

Percentage of Covered Workers Facing Different Cost-Sharing Formulas for Prescription Drug Benefits, 2000, 2001 and 2002



THREE-TIER = ONE PAYMENT FOR GENERIC DRUGS, ANOTHER FOR PREFERRED DRUGS, AND A THIRD FOR NON-PREFERRED DRUGS  
 TWO-TIER = ONE PAYMENT FOR GENERIC DRUGS AND ONE FOR ALL NAME BRAND DRUGS  
 PAYMENT THE SAME REGARDLESS OF TYPE OF DRUG  
 OTHER/DON'T KNOW

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002.

\* Distribution is statistically different from the previous year shown: 2000-2001, 2001-2002.

Generic drugs: a drug product that is no longer covered by patent protection and thus may be produced and/or distributed by many firms.

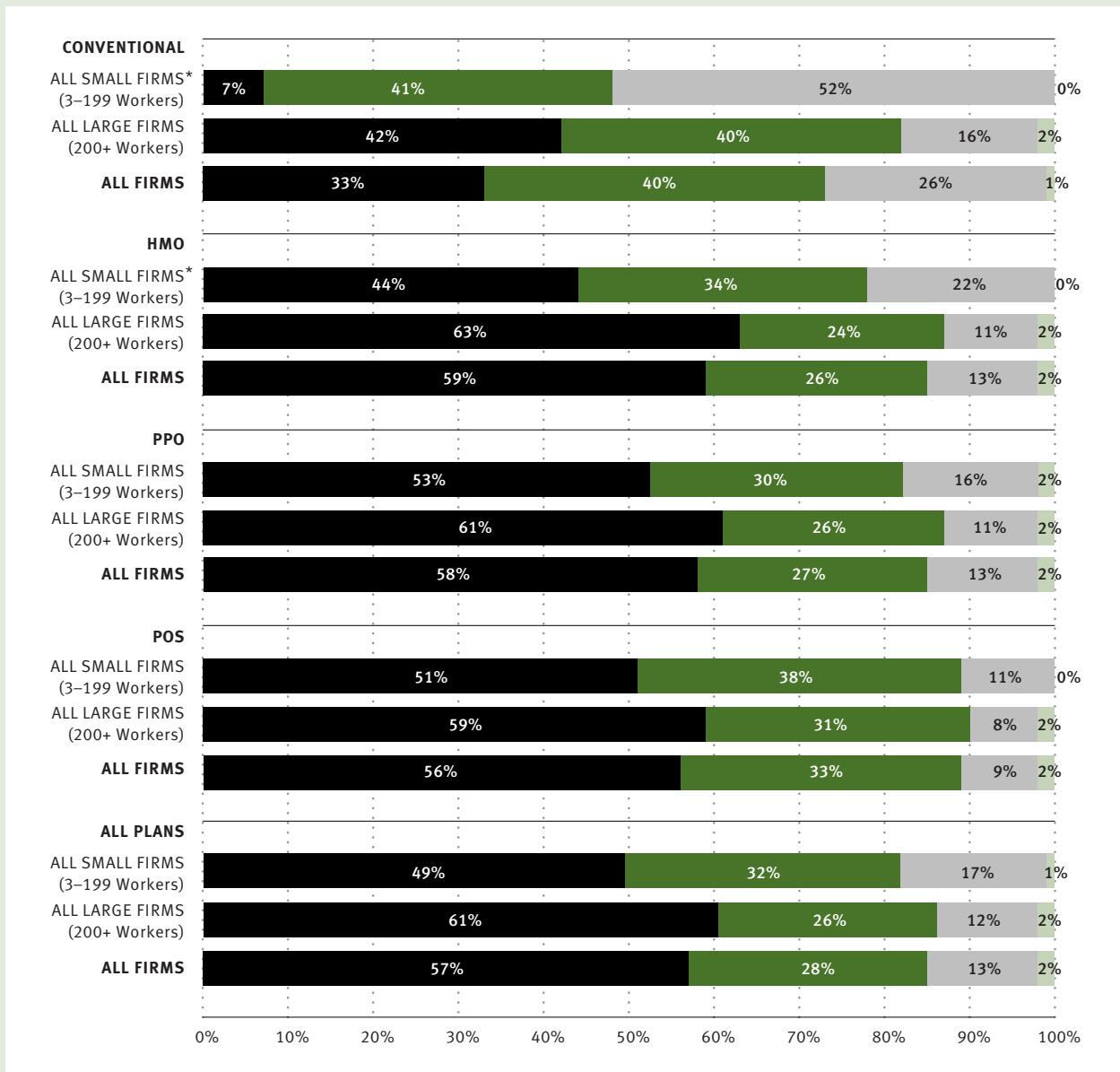
Preferred drugs: brand name drugs with no generic substitutes.

Non-preferred drugs: brand name drugs with generic substitutes.

Brand name drugs: generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

EXHIBIT 9.2

Percentage of Covered Workers Facing Different Cost-Sharing Formulas for Prescription Drug Benefits in Conventional, HMO, PPO and POS Plans, by Firm Size, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

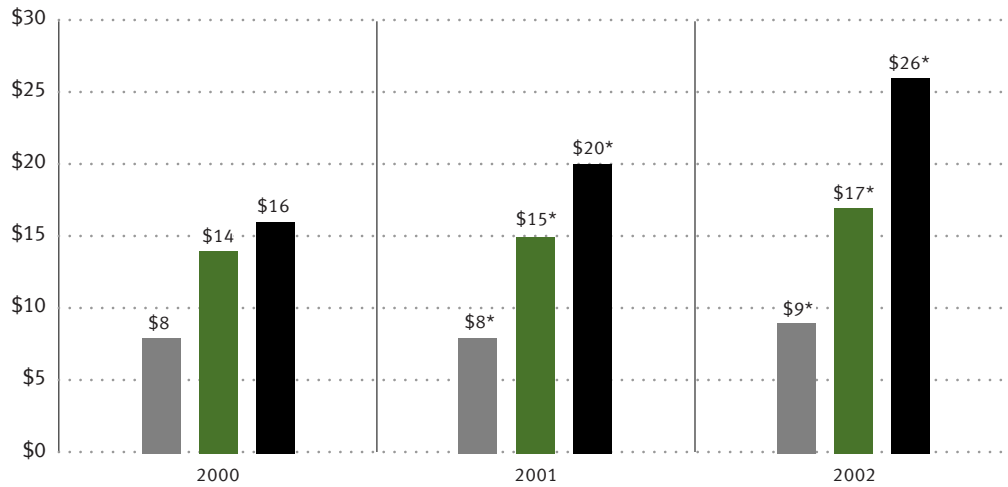
\* Distribution is statistically different from All Firms by Plan Type.

Note: See definitions from Exhibit 9.1 on previous page.

- THREE-TIER = ONE PAYMENT FOR GENERIC DRUGS, ANOTHER FOR PREFERRED DRUGS, AND A THIRD FOR NON-PREFERRED DRUGS
- TWO-TIER = ONE PAYMENT FOR GENERIC DRUGS AND ONE FOR ALL NAME BRAND DRUGS
- PAYMENT THE SAME REGARDLESS OF TYPE OF DRUG
- OTHER/DON'T KNOW

EXHIBIT 9.3

## Average Copays for Generic Drugs, Preferred Drugs, and Non-Preferred Drugs, 2000, 2001 and 2002



GENERIC  
 PREFERRED DRUGS  
 NON-PREFERRED DRUGS

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002.

\* Estimate is statistically different from previous year by drug tier, 2000-2001, 2001-2002.

Generic drugs: a drug product that is no longer covered by patent protection and thus may be produced and/or distributed by many firms.

Preferred drugs: brand name drugs with no generic substitutes.

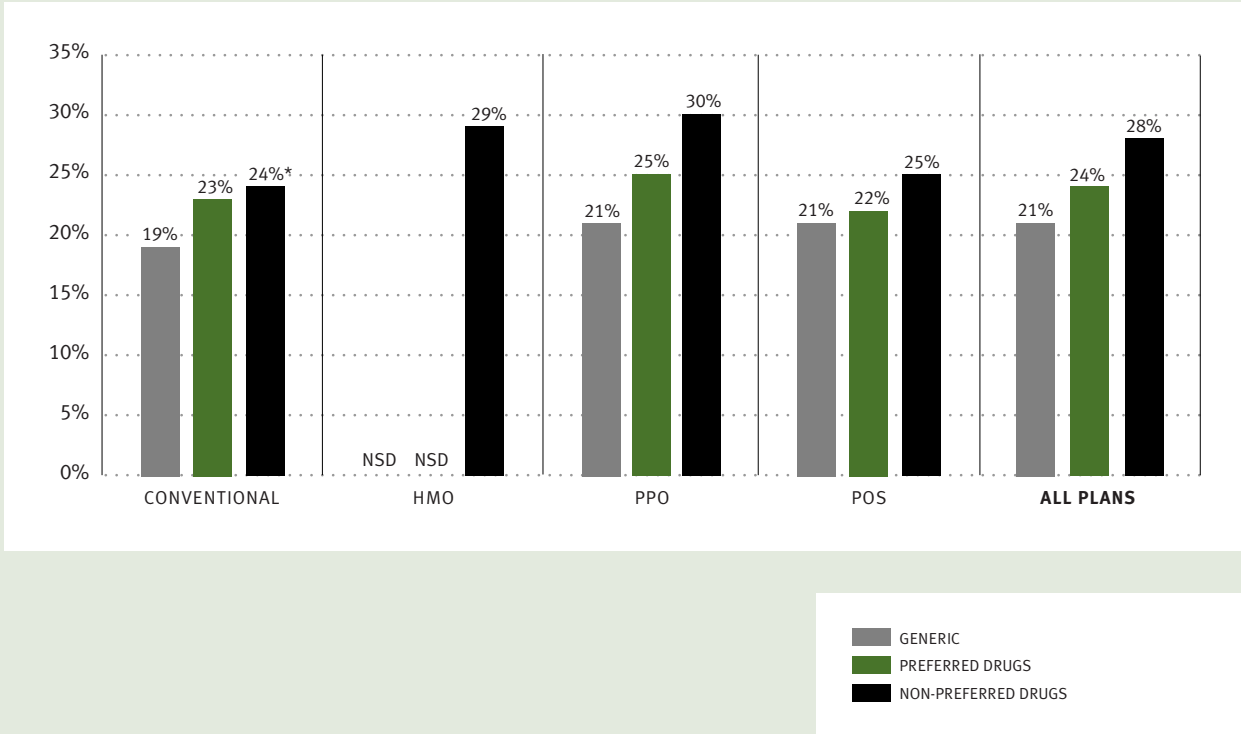
Non-preferred drugs: brand name drugs with generic substitutes.

Brand name drugs: generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

Note: On average, generic drugs cost \$7.68 in 2000, \$8.19 in 2001, and \$8.80 in 2002.

EXHIBIT 9.4

Average Coinsurance Rate for Generic Drugs, Preferred Drugs, and Non-Preferred Drugs, in Conventional, HMO, PPO, and POS Plans, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Plans by plan type.

NSD: Not sufficient data.

Generic drugs: a drug product that is no longer covered by patent protection and thus may be produced and/or distributed by many firms.

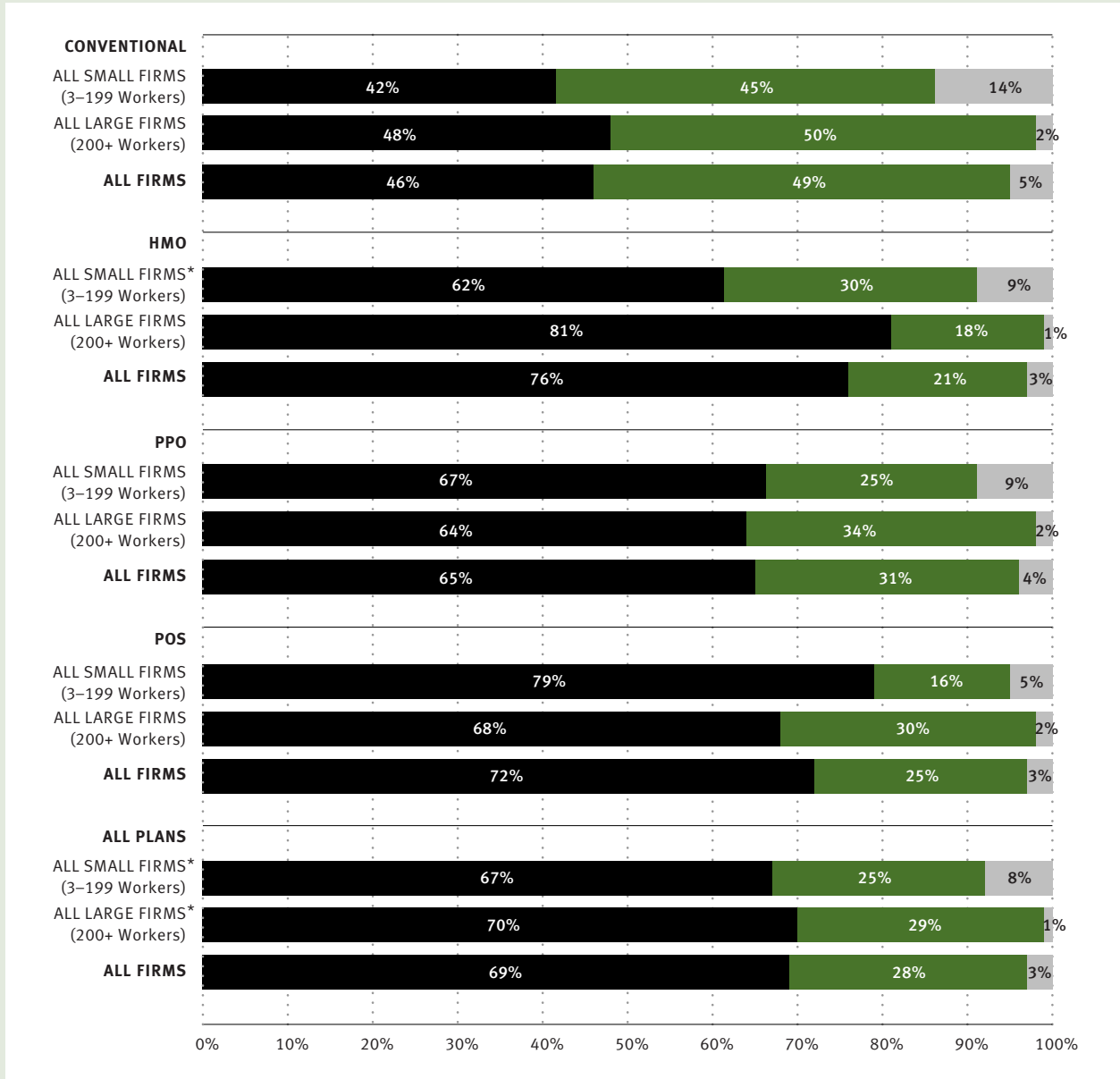
Preferred drugs: brand name drugs with no generic substitutes.

Non-preferred drugs: brand name drugs with generic substitutes.

Brand name drugs: generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

EXHIBIT 9.5

Percentage of Covered Workers in Plans With a Formulary That Restricts Which Drugs Will Be Covered in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

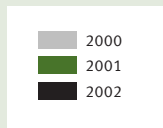
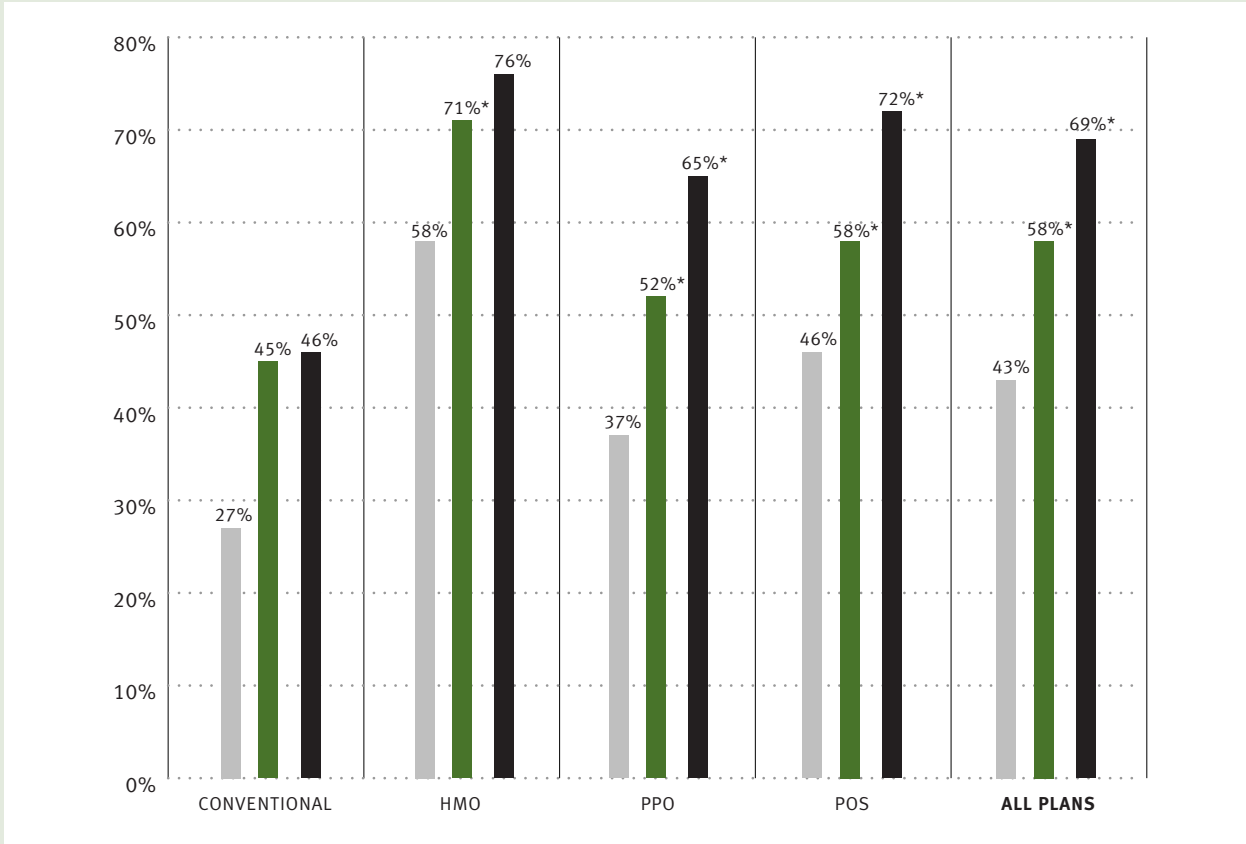
\* Distribution is statistically different from All Firms within a plan type.

YES  
 NO  
 DON'T KNOW



EXHIBIT 9.6

Percentage of Covered Workers With A Formulary That Restricts Which Drugs Will Be Covered, by Plan Type, 2000, 2001 and 2002



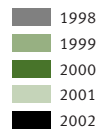
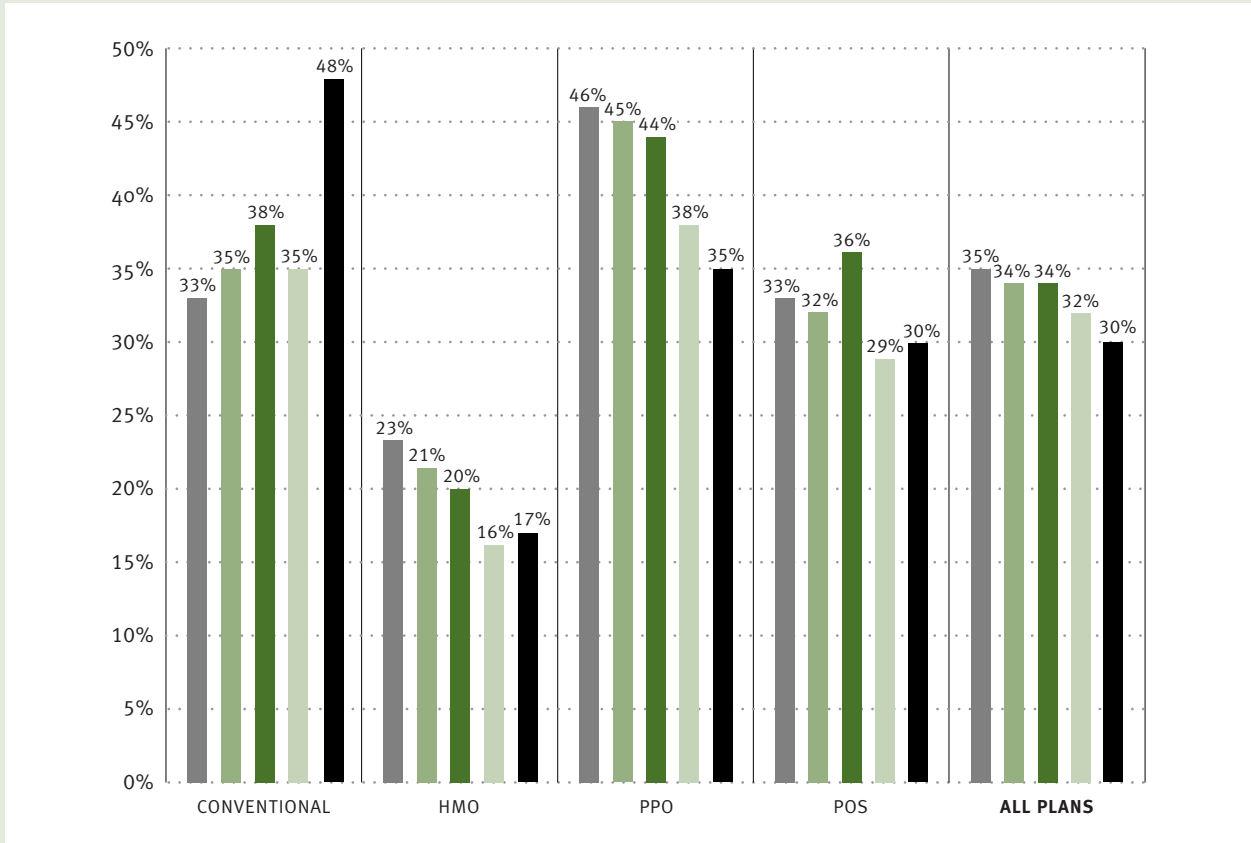
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002.

\* Estimate is statistically different from previous year for years 2000-2001, 2001-2002.

EXHIBIT 9.7

Percentage of Covered Workers With Prescription Drug Carve Outs, by Plan Type, 1998-2002\*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1998.

\* Tests found no statistically different estimates from the previous year shown:  
1998-1999, 1999-2000, 2000-2001, 2001-2002.

## EXHIBIT 9.8

## Percentage of Covered Workers in Firms That Carve Out Their Prescription Drug Benefits, by Firm Size and Region, 2002

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
<b>FIRM SIZE</b>					
All Small Firms (3-199 Workers)	8%*	13%	19%*	17%*	17%*
Midsize (200-999 Workers)	36	10	27*	24	23
Large (1,000-4,999 Workers)	26	15	35	40	30
Jumbo (5,000+ Workers)	84*	21	54*	42	44*
<b>REGION</b>					
Northeast	36%	19%	45%	32%	34%
Midwest	63	21	31	24	32
South	40	15	34	32	30
West	23	14	34	28	24
<b>ALL REGIONS AND FIRM SIZES</b>	<b>48%</b>	<b>17%</b>	<b>35%</b>	<b>30%</b>	<b>30%</b>

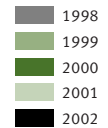
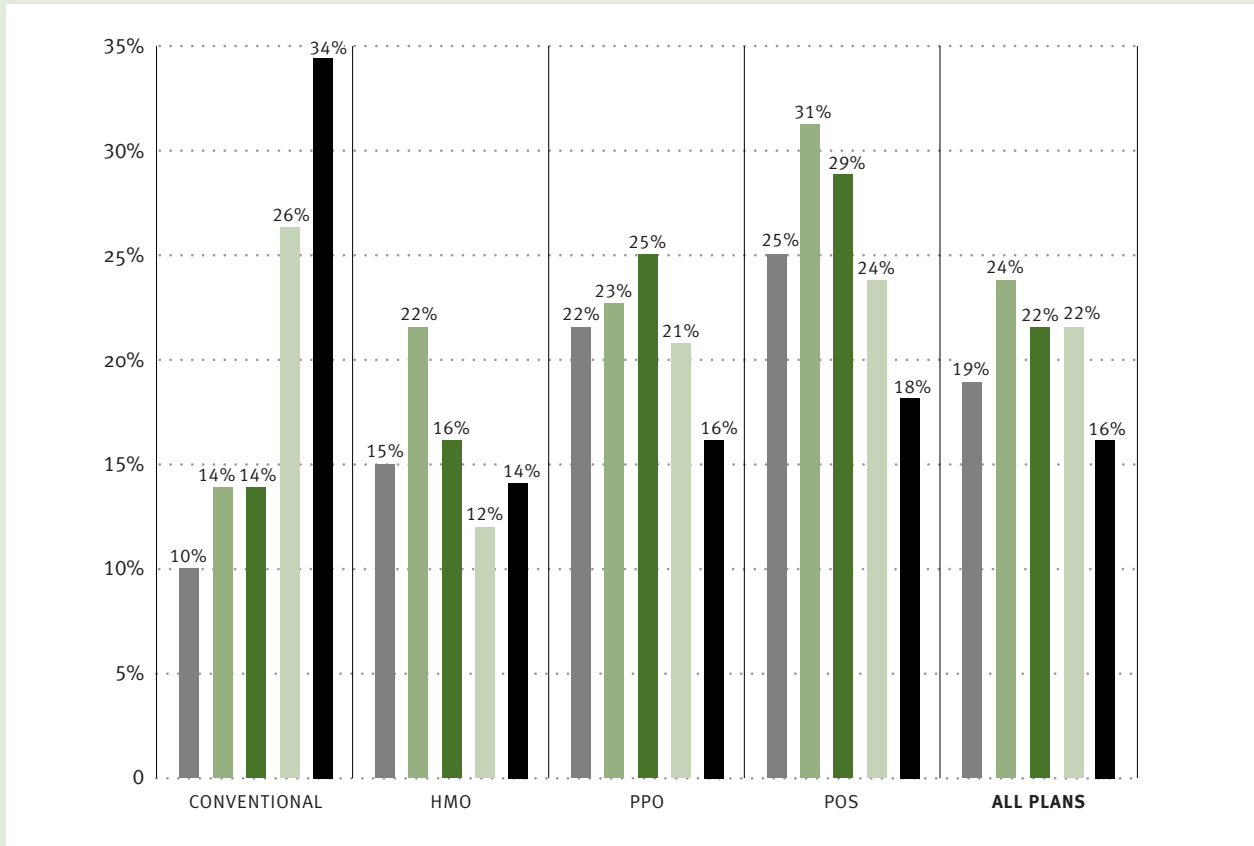
## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms within a plan type.

EXHIBIT 9.9

Percentage of Covered Workers in Firms That Carve Out Mental Health Benefits, by Plan Type, 1998-2002\*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1998.

\* Tests found no statistical difference from the previous year shown: 1998-1999, 1999-2000, 2000-2001, 2001-2002.

## EXHIBIT 9.10

## Percentage of Covered Workers in Firms That Carve Out Their Mental Health Benefits, by Firm Size and Region, 2002

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
<b>FIRM SIZE</b>					
All Small Firms (3-199 Workers)	6%*	5%*	9%*	8%*	8%*
Midsize (200-999 Workers)	2*	7	12	15	11
Large (1,000-4,999 Workers)	11	18	18	31	21
Jumbo (5,000+ Workers)	70	18	23	25	22
<b>REGION</b>					
Northeast	7%	8%	9%*	14%	10%
Midwest	58	30	18	15	24
South	6*	8	18	21	15
West	6*	14	17	23	16
<b>ALL REGIONS AND FIRM SIZES</b>	<b>34%</b>	<b>14%</b>	<b>16%</b>	<b>18%</b>	<b>16%</b>

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firm Sizes.

## EXHIBIT 9.11

## Percentage of Covered Workers With Various Outpatient Mental Health Visit Annual Maximums, by Plan Type, 2002\*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
20 Visits or Less	26%	41%	26%	34%	32%
21 to 30 Visits	16	23	28	19	24
31 to 50 Visits	5	8	12	9	11
More than 50 Visits	5	5	7	9	7
Unlimited	30	10	15	14	12
Don't Know	18	14	10	15	14

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distributions from All Plans.

## EXHIBIT 9.12

## Percentage of Covered Workers With Various Inpatient Mental Health Day Annual Maximums, by Plan Type, 2002\*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
10 Days or Less	3%	8%	5%	6%	7%
11 to 20 Days	4	5	8	6	7
21 to 30 Days	11	39	37	38	36
31 or More Days	17	16	14	15	15
Unlimited	36	14	19	15	18
Don't Know	29	18	16	20	17

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distributions from All Plans.

EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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Plan Funding  
and the Use  
of Pre-Existing  
Condition  
Clauses

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SECTION

10

## PLAN FUNDING AND THE USE OF PRE-EXISTING CONDITION CLAUSES

AS INTERPRETED BY THE COURTS, THE EMPLOYEE RETIREMENT INCOME AND SECURITY ACT (ERISA) OF 1974 EXEMPTS SELF-INSURED PLANS FROM STATE REGULATION INCLUDING RESERVE REQUIREMENTS, MANDATED BENEFITS, PREMIUM TAXES, AND CONSUMER PROTECTION REGULATIONS. SELF-INSURANCE IS COMMON AMONG LARGE EMPLOYERS BUT IS LESS PREVALENT AND A FAR RISKIER UNDERTAKING FOR SMALLER FIRMS, WHICH HAVE FEWER EMPLOYEES OVER WHICH TO SPREAD THE EXPENSE OF COSTLY CLAIMS.

### SELF INSURANCE

- ▶ In 2002, 49% of covered employees are in plans that are completely or partially self-insured. The percentage of covered workers in self-insured plans has changed little since 1998 (EXHIBIT 10.1).
  - *The likelihood that a plan self-insures is highly related to the size of the firm. Fifteen percent of covered workers in small firms (3 to 199 workers) are in self-insured plans, compared to 46% of workers in midsize firms (200 – 999 workers) and 70% of workers in jumbo firms (5,000 or more workers) (EXHIBIT 10.1).*
  - *Twenty-six percent of workers in HMOs are enrolled in self-funded plans, a far smaller percentage than the proportion of self-insured in conventional or PPO plans (66% and 62% respectively) (EXHIBITS 10.3-10.6).*

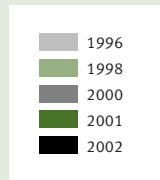
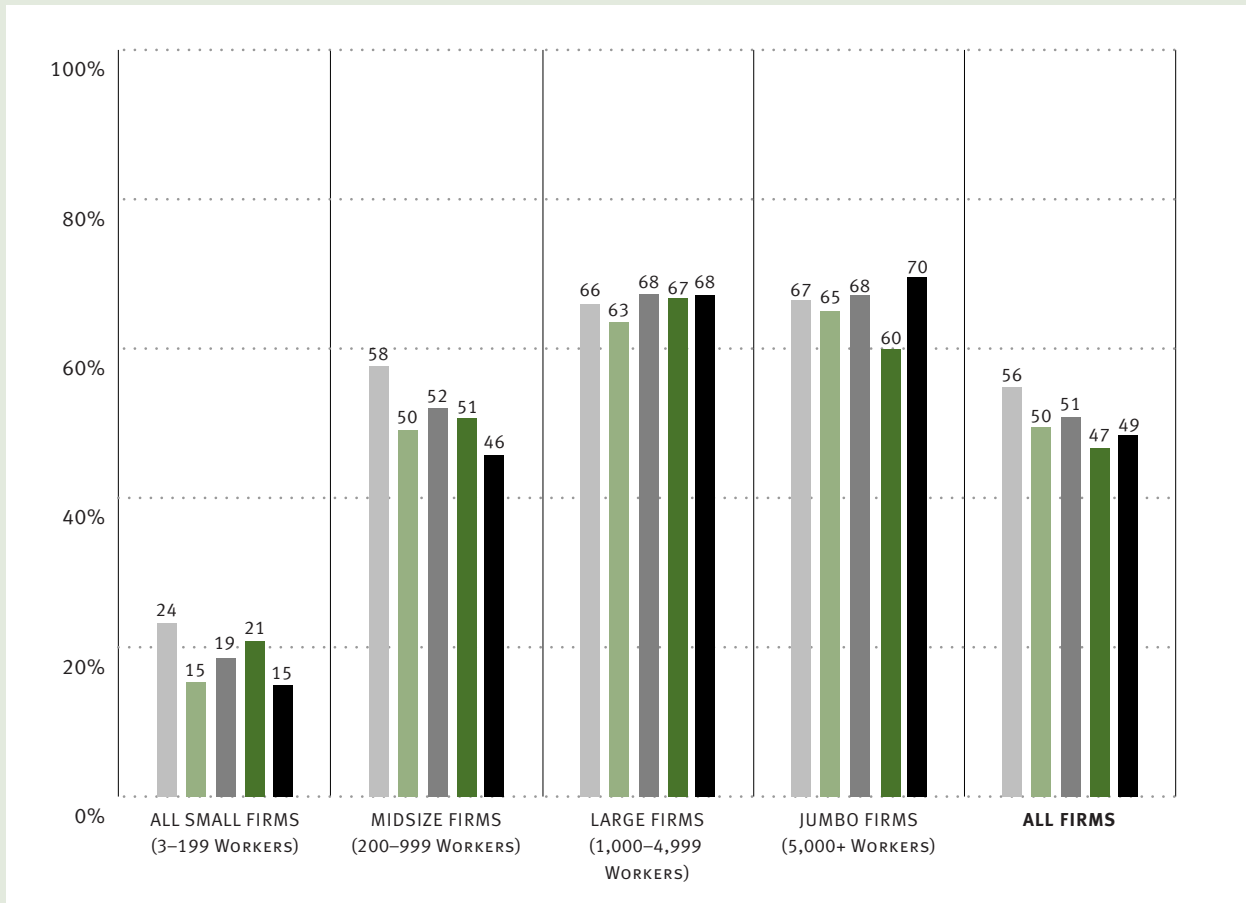
### PRE-EXISTING CONDITIONS

- ▶ Since the passage of the federal Health Insurance Portability Act (HIPAA) in 1996 – which put limits on pre-existing condition exclusions in both insured and self-insured plans – the use of pre-existing condition clauses that limit coverage at the time of employment has declined considerably among conventional, PPO, and POS plans (EXHIBIT 10.8).
  - *Pre-existing condition clauses for new employees are least common in HMO plans, applying to 12% of covered workers in HMOs, and most common in PPOs, applying to 43% of workers.*
  - *The percentage of new hires in PPOs facing pre-existing condition exclusions dropped substantially after 1996 and has remained relatively constant since that time. In 2002, 43% of covered workers in PPOs face pre-existing condition clauses at the time of employment.*
- *Workers in the smallest firms (3-9 workers) are far more likely to face pre-existing condition clauses than are workers in the jumbo firms (5,000 or more workers), 33% versus 22% (EXHIBIT 10.9).*
- ▶ Average exclusion periods for individuals subject to pre-existing condition clauses remain fairly long, at 10 months across all plan types. However, HIPAA provides portability of coverage for many workers, meaning that pre-existing condition exclusions are often waived for people moving from one plan to another (EXHIBIT 10.11).



EXHIBIT 10.1

Percentage of Covered Workers in Partly or Completely Self-Insured Plans, by Firm Size, 1996-2002\*



SOURCE:

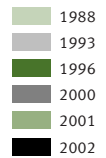
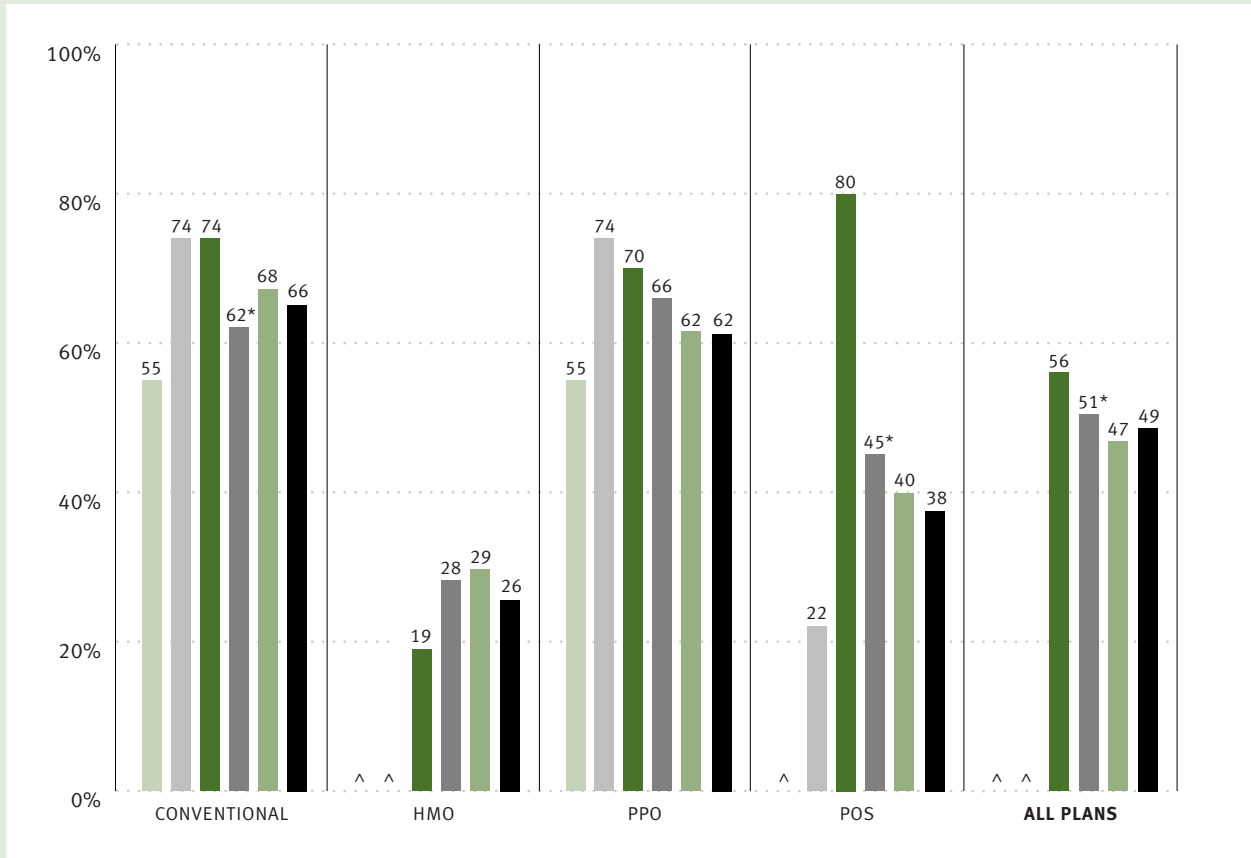
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Tests found no statistically different estimates from the previous year shown: 1998-2000, 2000-2001, 2001-2002.

Self-insured plans: where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

EXHIBIT 10.2

Percentage of Covered Workers in Partly or Completely Self-Insured Plans, by Plan Type, 1988-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

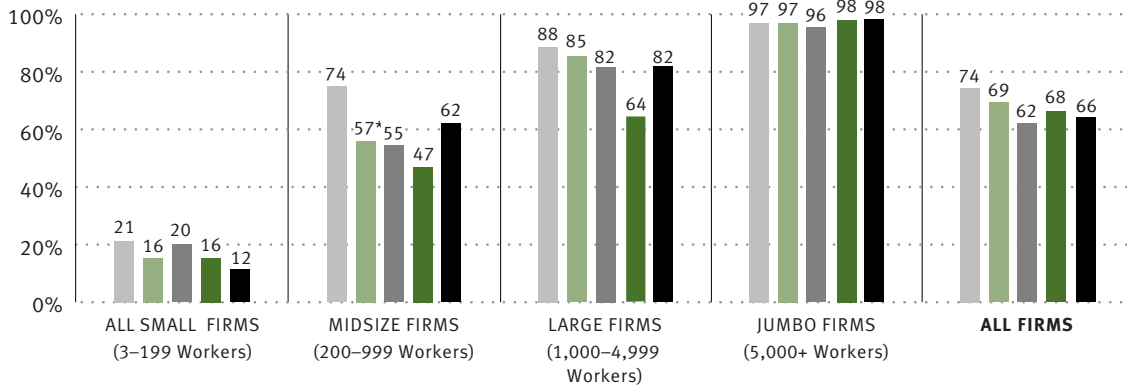
\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for HMO plans in 1988 and 1993, and POS plans in 1988.

Self-insured plans: where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

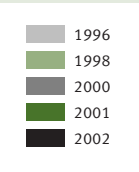
EXHIBIT 10.3

Percentage of Covered Workers in Partly or Completely Self-Insured Conventional Plans, by Firm Size, 1996-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

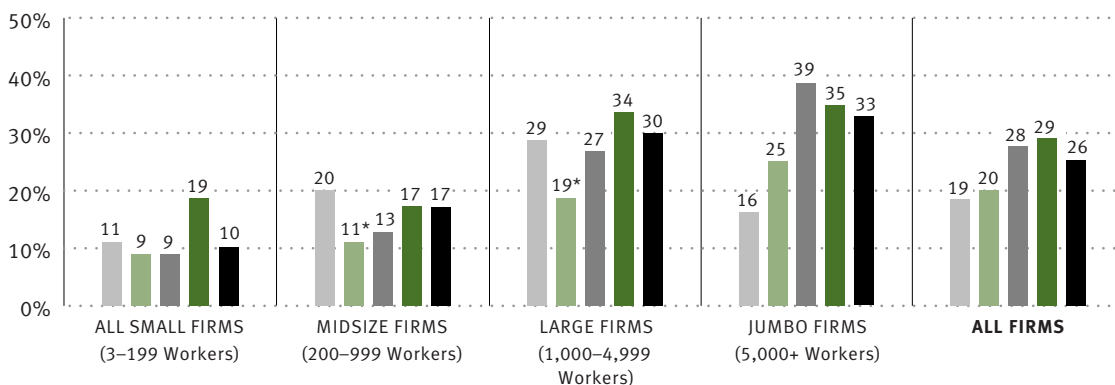


\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

Self-insured plans: where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

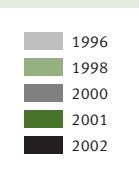
EXHIBIT 10.4

Percentage of Covered Workers in Partly or Completely Self-Insured HMO Plans, by Firm Size, 1996-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

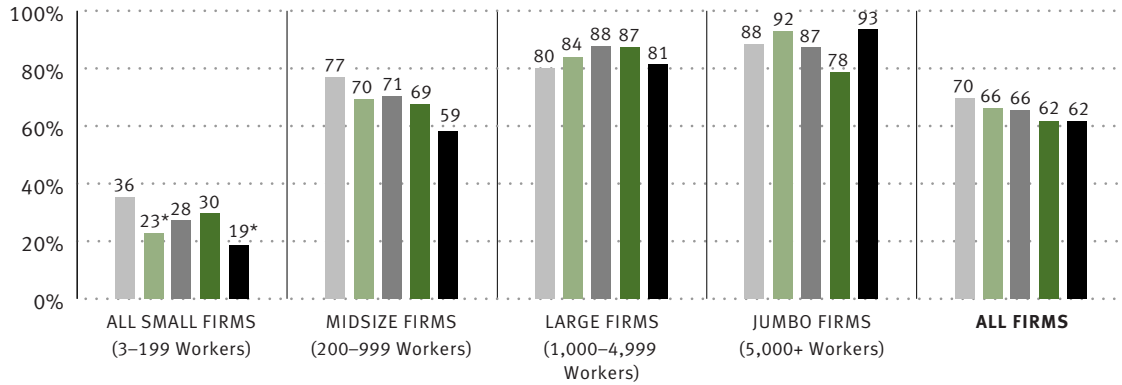


\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

Self-insured plans: where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

EXHIBIT 10.5

Percentage of Covered Workers in Partly or Completely Self-Insured PPO Plans, by Firm Size, 1996-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

Self-insured plans: where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

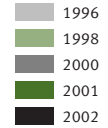
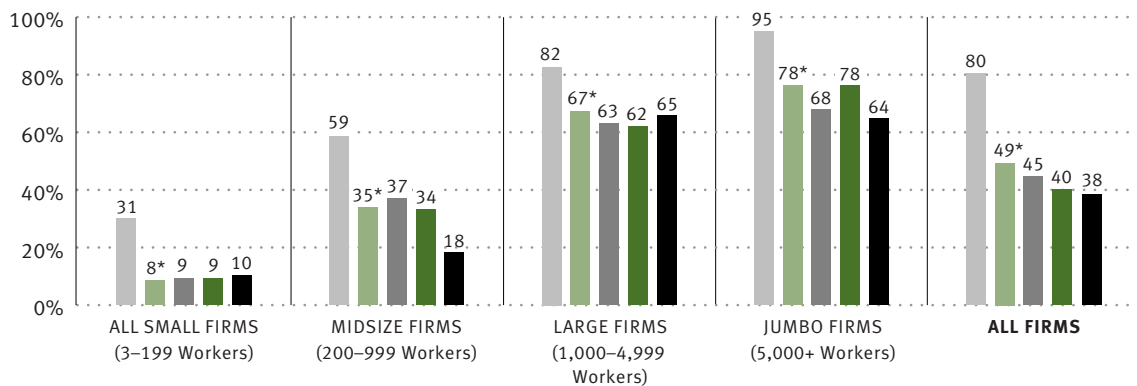


EXHIBIT 10.6

Percentage of Covered Workers in Partly or Completely Self-Insured POS Plans, by Firm Size, 1996-2002

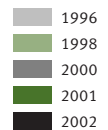


SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

Self-insured plans: where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.



## EXHIBIT 10.7

## Percentage of Covered Workers Under Different Funding Arrangements, by Industry, 2002\*

	<i>Coverage Underwritten by an Insurer</i>	<i>Self-Insured (Employer bears all or any of financial risk)</i>
<b>ALL PLANS</b>		
Mining/Construction/Wholesale	57%	43%
Manufacturing	41	59
Transportation/Communication/Utility	38	62
Retail	46	54
Finance	64	36
Service	58	42
State/Local Government	52	48
Health Care	39	61
<b>ALL INDUSTRIES</b>	<b>51%</b>	<b>49%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

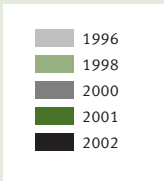
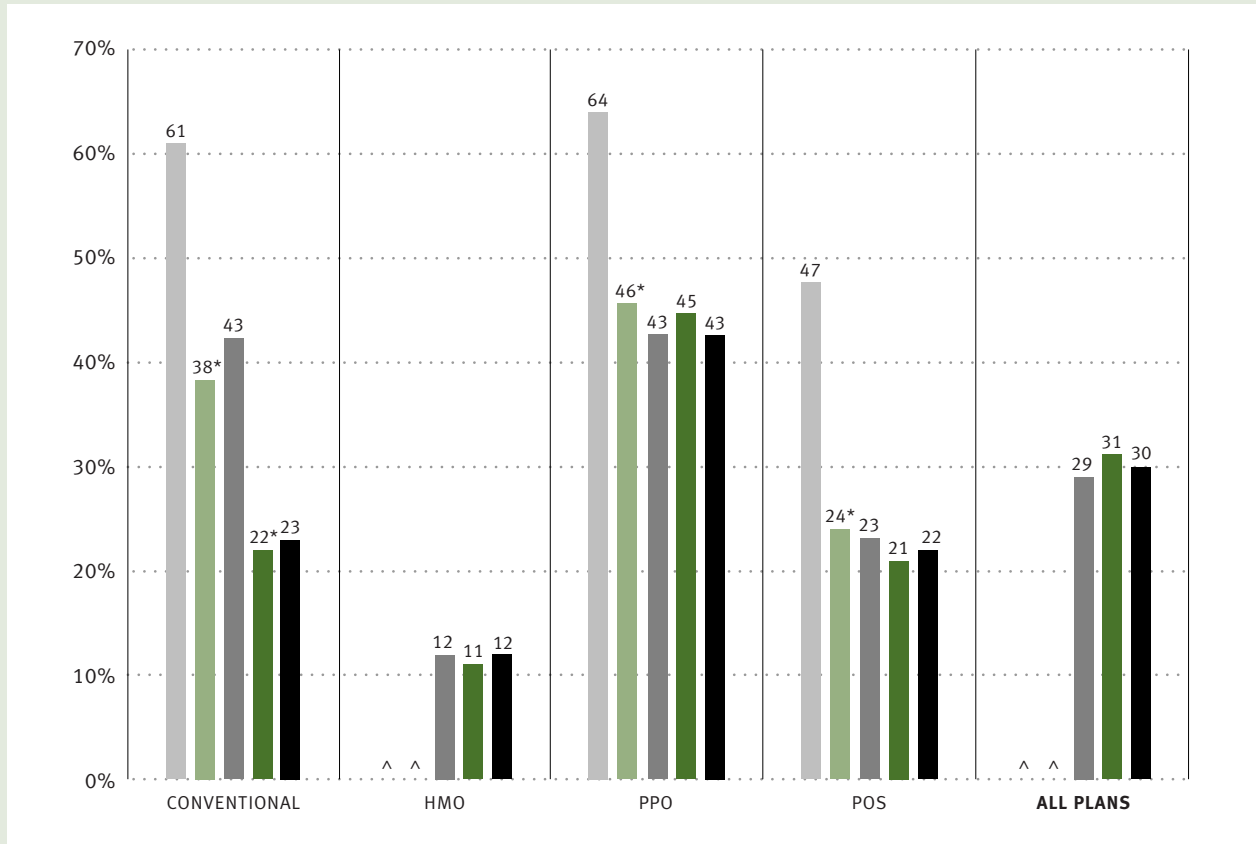
\* Tests found no statistically different distributions from All Industries.

NSD: Not sufficient data.

Self-insured plans: where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

EXHIBIT 10.8

Percentage of Covered Workers in Firms With Pre-Existing Condition Clauses for New Employees, by Plan Type, 1996-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

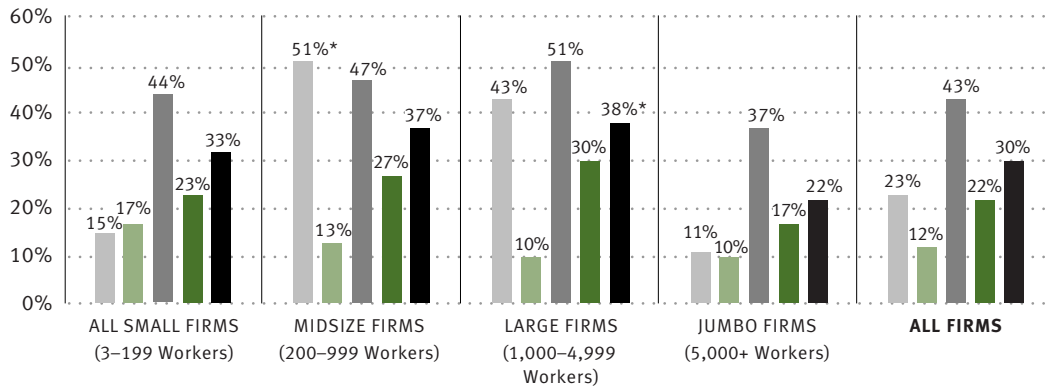
\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

^ Information was not obtained for HMO Plans in 1996 and 1998.

Pre-existing condition clauses: temporary exclusion from coverage for health conditions that existed prior to enrollment in the health plan.

EXHIBIT 10.9

Percentage of Covered Workers in Firms With Pre-Existing Condition Clauses for New Employees, by Firm Size, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms within a plan type.

Pre-existing condition clauses: temporary exclusion from coverage for health conditions that existed prior to enrollment in the health plan.

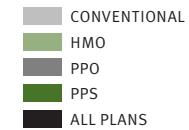
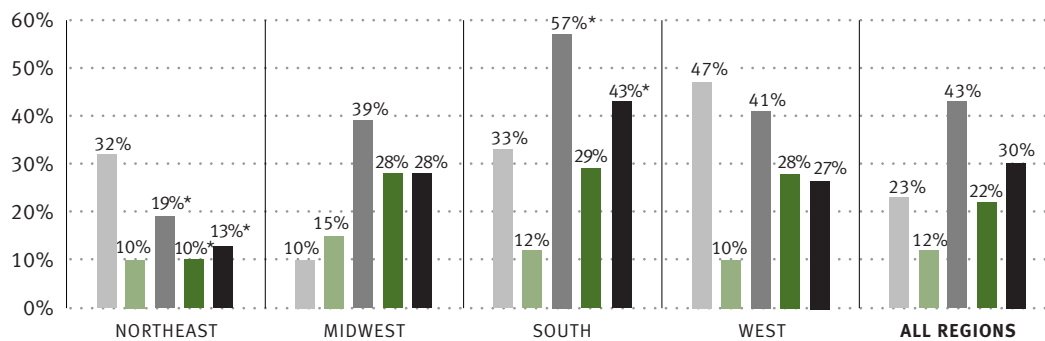


EXHIBIT 10.10

Percentage of Covered Workers in Firms With Pre-Existing Condition Clauses for New Employees, by Region, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Regions within a plan type.

Pre-existing condition clauses: temporary exclusion from coverage for health conditions that existed prior to enrollment in the health plan.

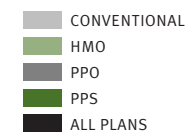
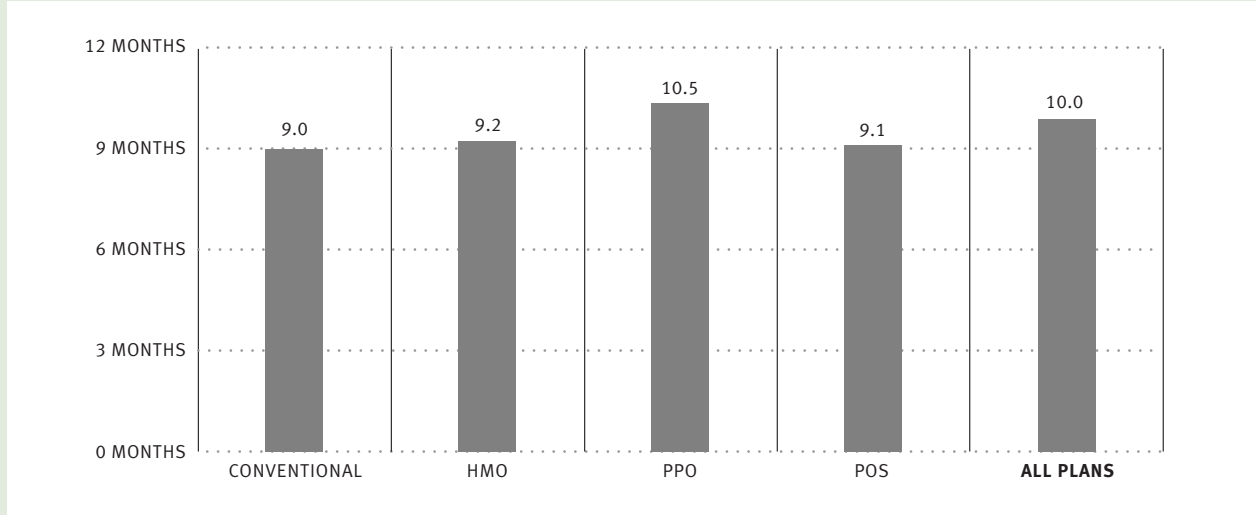


EXHIBIT 10.11

If Pre-Existing Condition Limitation Exists for New Employees, Average Number of Months to Wait Before Coverage, 2002\*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different estimates from All Plans.



EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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# Retiree Health Benefits

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SECTION

11

## RETIREE HEALTH BENEFITS

RETIREE HEALTH BENEFITS ARE A KEY CONSIDERATION FOR OLDER WORKERS (AGE 55-64) MAKING THEIR DECISIONS ABOUT RETIREMENT. FOR THE POPULATION AGES 65 AND OLDER, RETIREE HEALTH BENEFITS SUPPLEMENT MEDICARE. AS THE LARGEST SOURCE OF PRESCRIPTION DRUG COVERAGE FOR THAT POPULATION, RETIREE BENEFITS ARE KEY TO AFFORDABLE ACCESS TO NEEDED MEDICINES.<sup>8</sup>

FOR EMPLOYERS, RETIREE BENEFITS REPRESENT A SIGNIFICANT PRESENT AND FUTURE COST – BOTH AS A RESULT OF CHANGES IN ACCOUNTING RULES THAT REQUIRED COMPANIES TO ACCOUNT FOR THE FUTURE COST OF BENEFITS ON THEIR BALANCE SHEETS – AS WELL AS THE CONTINUING PRESSURE OF COVERING COST AND UTILIZATION INCREASES FOR RETIREE'S PRESCRIPTION DRUGS IN THE ABSENCE OF A MEDICARE DRUG BENEFIT. FEWER EMPLOYERS ARE OFFERING RETIREE BENEFITS TODAY THAN 15 YEARS AGO.

AS THE CONGRESSIONAL DEBATE OVER A PRESCRIPTION DRUG PLAN FOR SENIORS CONTINUES, RETIREE HEALTH BENEFITS ARE DECLINING. AMONG THE COMPANIES THAT CONTINUE TO OFFER COVERAGE TO THEIR RETIREES, MANY ARE EMBRACING COST-CONTAINMENT STRATEGIES THAT WILL PASS ALONG HIGHER COSTS TO RETIREES.

### AVAILABILITY OF RETIREE BENEFITS

- ▶ The percentage of firms offering retiree coverage has declined substantially over time, although there was no significant change this past year. Sixty-six percent of all large firms (with 200 or more workers) offered retiree coverage in 1988, compared with 34% in 2002 (EXHIBIT 11.1).
- ▶ The availability of retiree benefits varies significantly by firm size, industry and the presence of union workers (EXHIBIT 11.2).
- Retiree benefits are offered by 34% of large firms (200 or more workers) compared to just 5% of all small firms (3-199 workers).
- Firms in transportation, communications, utilities, and finance are more likely than firms in other industries to offer retiree benefits. Firms in the retail industry or in mining, construction or wholesale are much less likely than firms in other industries to have retiree benefits (EXHIBIT 11.2).

#### NOTE:

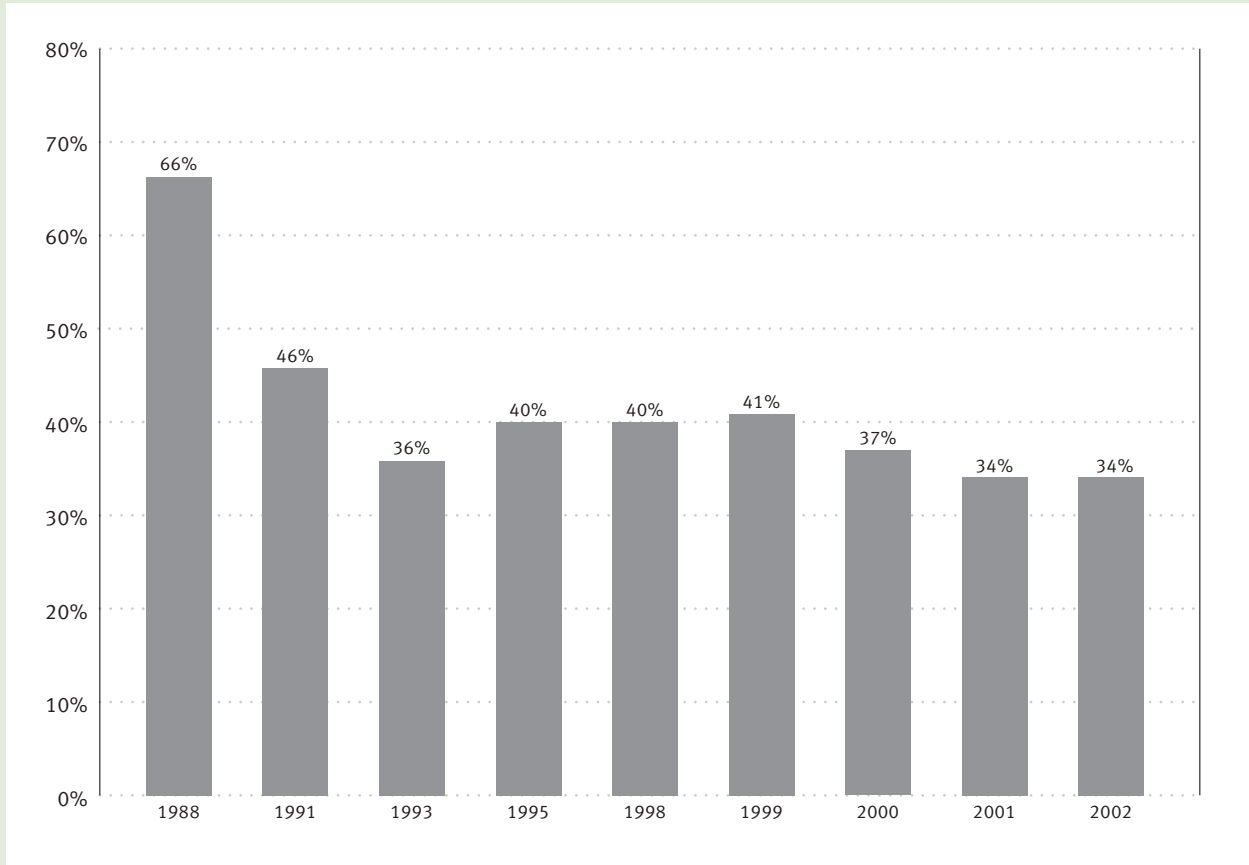
<sup>8</sup> Twenty-eight percent of Medicare Beneficiaries receive prescription drug coverage from an employer, a far higher number than receive coverage through a Medicare HMO (15%), Medigap (7%) or Medicaid (10%). Laschober, et. al., *Health Affairs*, February 2002.

- More than two-thirds (69%) of large state and local governments (200 or more workers) offer retiree benefits.
- Firms with union workers are significantly more likely to offer retiree health benefits than firms without union workers – 59% of large firms with union employees offer retiree benefits, compared to 24% of large firms that do not have union employees (EXHIBIT 11.6).
- ▶ Virtually all large firms (200 or more workers) that offer retiree benefits offer them to early retirees under the age of 65 (96%). A lower percentage (72%) of large firms offering retiree benefits offer them to Medicare-age retirees (EXHIBITS 11.3, 11.4).
- Large firms in the Northeast are much more likely to offer benefits to Medicare-age retirees (89%) than large firms in other regions offering retiree coverage (EXHIBIT 11.5).
- Among large firms (200 or more workers) offering retiree coverage, those in mining, construction and wholesale are much more likely to offer coverage to Medicare-age retirees than large firms in other industries (EXHIBIT 11.5).

#### **COST-SHIFTING FOR RETIREES**

- ▶ Many employers offering retiree benefits have made changes in the last two years that shift additional costs onto enrollees (EXHIBIT 11.7).
  - Over one-third (37%) of large firms (200 or more workers) have increased the share of the premium paid by retirees. Sixty percent of jumbo firms (5,000 or more employees) have done so.
- ▶ Among large firms, 9% of employers report having eliminated retiree coverage for new hires or employees who have not yet retired (EXHIBIT 11.9).
  - Seventeen percent of firms have increased the amount retirees pay for prescription drugs.
  - Thirteen percent of firms say they have introduced three-tiered cost-sharing for drugs for retirees, where enrollee payments vary by the type of prescription (e.g., generic, preferred brand name, non-preferred brand name).
- ▶ Many employers also say they expect to make changes in their retiree benefit plans in the next two years. (EXHIBITS 11.8, 11.10-11.15).
  - Thirty-one percent of firms say it's very or somewhat likely that they will increase cost-sharing for prescription drugs for retirees, and 16% say it is very or somewhat likely they will introduce three-tiered cost-sharing for drugs. Large firms are more likely to project these changes than smaller firms.
  - Thirty-seven percent of firms say they are very or somewhat likely to increase the share of the premium paid by retirees. Fifty percent of all large firms (200 or more workers) report that they will likely increase the employee share of premium.
  - Only 2% of firms say they are very or somewhat likely to eliminate retiree coverage entirely in the next two years, yet 11% of large firms say it is very or somewhat likely they will eliminate retiree benefits for new employees or for existing workers who have not yet retired.

## EXHIBIT 11.1

Percentage of All Large Firms (200+ Workers) Offering Retiree Health Benefits<sup>^</sup>, 1988-2002\*

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1991, 1993, 1995, 1998.

\* Tests found no statistically different estimate from the previous year shown: 1998-1999, 1999-2000, 2000-2001, 2001-2002.

<sup>^</sup> Of firms that offer health benefits to active workers.

## EXHIBIT 11.2

Percentage of Employers Offering Retiree Health Benefits<sup>^</sup>, by Firm Size, Region, and Industry, 2002

	<i>All Small Firms (3-199 Workers)</i>	<i>All Large Firms (200+ Workers)</i>
<b>FIRM SIZE</b>		
Small (3-9 Workers)	4%	-
Small (10-24 Workers)	1	-
Small (25-49 Workers)	5	-
Small (50-199 Workers)	16*	-
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>5</b>	<b>-</b>
Midsize (200-999 Workers)	-	30%
Large (1,000-4,999 Workers)	-	48*
Jumbo (5,000+ Workers)	-	50*
<b>REGION</b>		
Northeast	2%	35%
Midwest	3	26
South	7	34
West	5	41
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	1%*	15%*
Manufacturing	2	24
Transportation/Communication/Utility	14	69*
Retail	2	9*
Finance	17	59*
Service	4	40
State/Local Government	28*	69*
Health Care	3	33
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>5%</b>	<b>34%</b>

## SOURCE :

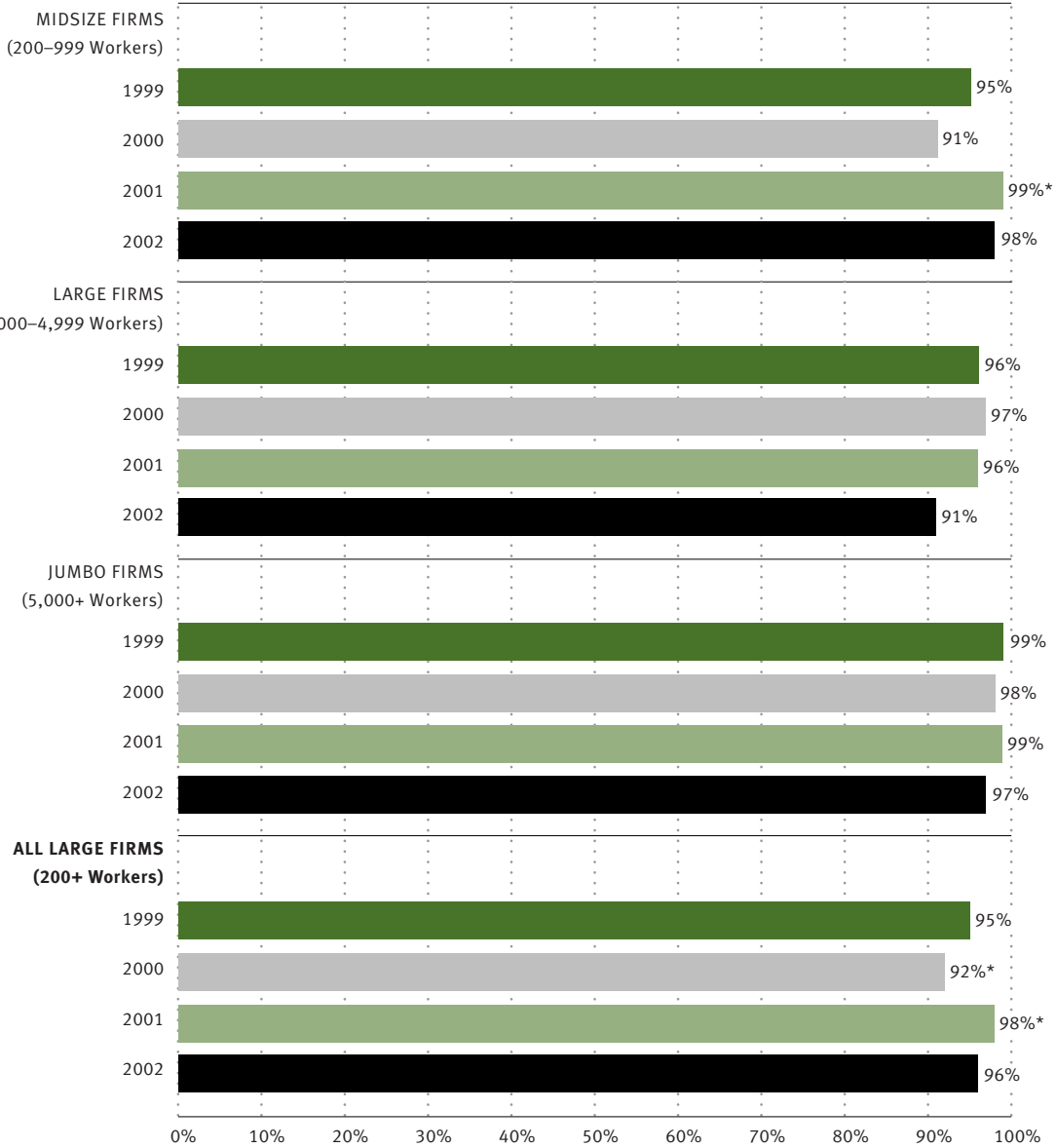
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms.

<sup>^</sup> Of firms that offer health benefits to active workers.

EXHIBIT 11.3

Percentage of Large Employers Offering Health Benefits to Early Retirees<sup>^</sup>, Among Large Firms Offering Retiree Coverage, by Firm Size, 1999-2002



SOURCE :

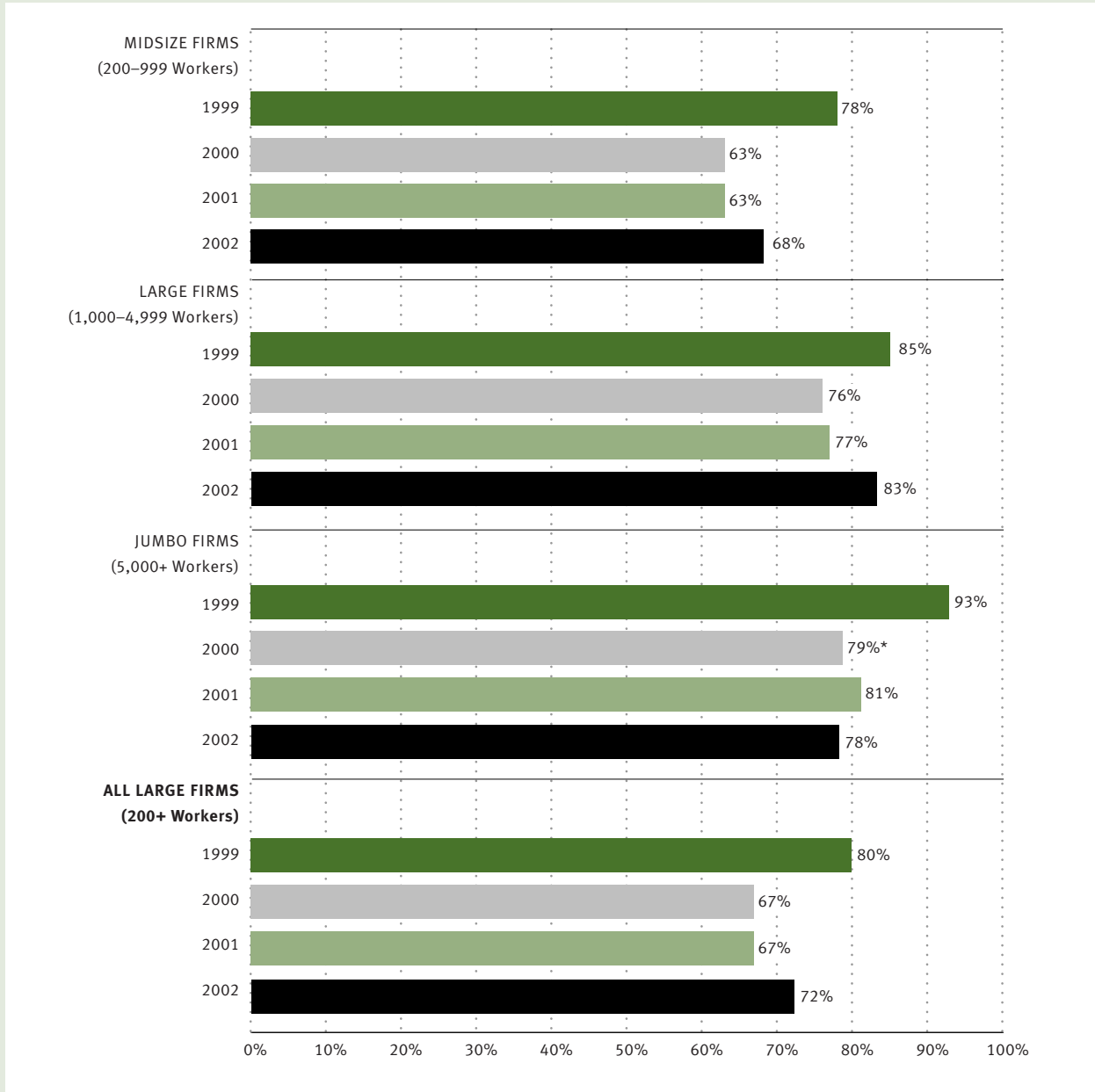
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002.

\* Estimate is statistically different from the previous year shown: 1999-2000, 2000-2001, 2001-2002.

<sup>^</sup> Early retiree: workers retiring before age 65.

EXHIBIT 11.4

Percentage of Large Employers Offering Health Benefits to Medicare-Age Retirees, Among Large Firms Offering Retiree Coverage, by Firm Size, 1999-2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002.

\* Estimate is statistically different from the previous year shown: 1999-2000, 2000-2001, 2001-2002.

## EXHIBIT 11.5

Percentage of Large Employers Offering Retiree Benefits to Early<sup>^</sup> and Medicare-Age Retirees, Among Large Firms Offering Retiree Coverage, by Firm Size, Region, and Industry, 2002

	<i>Percentage of Employers Offering Retiree Health Benefits to Early<sup>^</sup> Retirees</i>	<i>Percentage of Employers Offering Retiree Health Benefits to Medicare-Age Retirees</i>
<b>FIRM SIZE</b>		
Midsize (200-999 Workers)	98%	68%
Large (1,000-4,999 Workers)	91	83
Jumbo (5,000+ Workers)	97	78
<b>REGION</b>		
Northeast	92%	89%*
Midwest	99*	58
South	96	65
West	99*	75
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	94%	95%*
Manufacturing	100*	73
Transportation/Communication/Utility	97	79
Retail	NSD	NSD
Finance	99	67
Service	95	71
State/Local Government	97	76
Health Care	92	56
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>96%</b>	<b>72%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms.

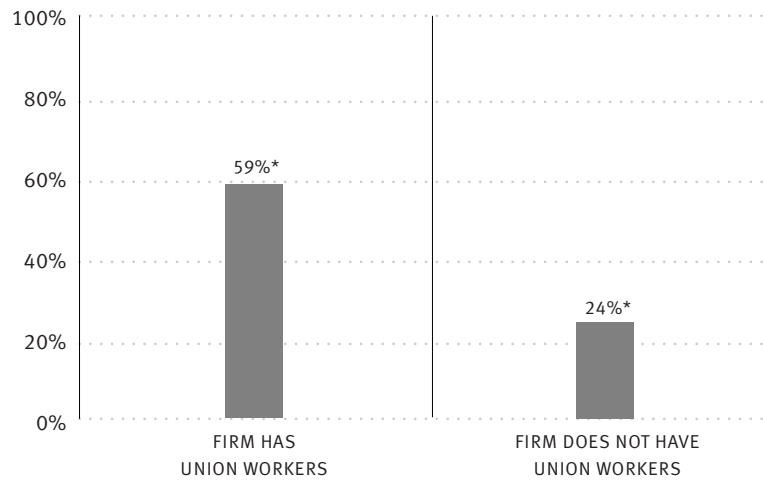
<sup>^</sup> Early retiree: workers retiring before age 65.

NSD: Not sufficient data.



## EXHIBIT 11.6

Percentage of All Large Firms (200+ Workers) in Which Retirees Are Offered Health Insurance, by Whether or Not the Firm Has Union Workers, 2002



## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Large Firms.

## EXHIBIT 11.7

In Firms Offering Retiree Health Benefits, Percentage Reporting the Following Changes in the Past Two Years, by Firm Size, 2002

	<i>Increased the Retiree Share of Premium</i>	<i>Increased the Amount Retirees Pay for Prescription Drugs</i>	<i>Introduced Three-Tiered Cost-Sharing for Drugs</i>
<b>FIRM SIZE</b>			
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>29%</b>	<b>15%</b>	<b>9%</b>
Midsize (200-999 Workers)	33	21	27*
Large (1,000-4,999 Workers)	55*	40*	37*
Jumbo (5,000+ Workers)	60*	37	37*
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>40</b>	<b>26</b>	<b>30*</b>
<b>ALL FIRM SIZES</b>	<b>31%</b>	<b>17%</b>	<b>13%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms.

## EXHIBIT 11.8

In Firms Offering Retiree Health Benefits, Percentage Reporting They Are Very or Somewhat Likely to Make the Following Changes in the Next Two Years, by Firm Size, 2002\*

	<i>Increased the Retiree Share of Premium</i>	<i>Increased the Amount Retirees Pay for Prescription Drugs</i>	<i>Introduced Three-Tiered Cost-Sharing for Drugs</i>
<b>FIRM SIZE</b>			
All Small Firms (3-199 Workers)	35%	30%	17%
All Large Firms (200+ Workers)	50	37	11
<b>ALL FIRM SIZES</b>	<b>37%</b>	<b>31%</b>	<b>16%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different estimates from All Firms.

## EXHIBIT 11.9

In Firms Offering Retiree Health Benefits, the Percentage Reporting They Have Made the Following Changes in the Past Two Years: Eliminated Retiree Health Benefits for New Employees or for Existing Employees Who Have Not Yet Retired, by Firm Size, 2002

	Yes	No	Already Done So	Don't Know
<b>FIRM SIZE</b>				
All Small Firms (3-199 Workers)	0%	83%	0%	16%
All Large Firms (200+ Workers)*	9	91	1	0
<b>ALL FIRM SIZES</b>	<b>2%</b>	<b>84%</b>	<b>0%</b>	<b>14%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.

## EXHIBIT 11.10

In Firms Offering Retiree Health Benefits, the Likelihood the Firm Will Make the Following Changes in the Next Two Years to Retiree Health Coverage: Eliminate Retiree Health Benefits for New Employees or for Existing Employees Who Have Not Yet Retired, by Firm Size, 2002\*

	Very Likely	Somewhat Likely	Somewhat Unlikely	Very Unlikely	Already Done So	Don't Know
<b>FIRM SIZE</b>						
All Small Firms (3-199 Workers)	3%	12%	6%	69%	0%	9%
All Large Firms (200+ Workers)	3	8	13	70	4	3
<b>ALL FIRM SIZES</b>	<b>3%</b>	<b>11%</b>	<b>7%</b>	<b>69%</b>	<b>1%</b>	<b>8%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distributions from All Firms.

## EXHIBIT 11.11

In Firms Offering Retiree Health Benefits, the Likelihood the Firm Will Make the Following Changes in the Next Two Years to Retiree Health Coverage: Eliminate Retiree Health Benefits Entirely, by Firm Size, 2002\*

	<i>Very Likely</i>	<i>Somewhat Likely</i>	<i>Somewhat Unlikely</i>	<i>Very Unlikely</i>	<i>Already Done So</i>	<i>Don't Know</i>
<b>FIRM SIZE</b>						
All Small Firms (3-199 Workers)	1%	1%	12%	78%	0%	9%
All Large Firms (200+ Workers)	0	4	9	83	1	2
<b>ALL FIRM SIZES</b>	<b>1%</b>	<b>1%</b>	<b>12%</b>	<b>79%</b>	<b>0%</b>	<b>8%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distribution from All Firms.

## EXHIBIT 11.12

In Firms Offering Retiree Health Benefits, the Likelihood the Firm Will Make the Following Changes in the Next Two Years to Retiree Health Coverage: Increase Share of Contributions for Premiums Required of Retirees, by Firm Size, 2002

	<i>Very Likely</i>	<i>Somewhat Likely</i>	<i>Somewhat Unlikely</i>	<i>Very Unlikely</i>	<i>Already Done So</i>	<i>Don't Know</i>
<b>FIRM SIZE</b>						
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>14%</b>	<b>21%</b>	<b>1%</b>	<b>55%</b>	<b>1%</b>	<b>8%</b>
Midsize (200-999 Workers)	19	27	11	39	2	2
Large (1,000-4,999 Workers)*	31	28	6	27	6	1
Jumbo (5,000+ Workers)*	36	24	10	21	8	2
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>23</b>	<b>27</b>	<b>10</b>	<b>35</b>	<b>4</b>	<b>2</b>
<b>ALL FIRM SIZES</b>	<b>15%</b>	<b>22%</b>	<b>2%</b>	<b>52%</b>	<b>1%</b>	<b>7%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.

## EXHIBIT 11.13

In Firms Offering Retiree Health Benefits, the Likelihood the Firm Will Make the Following Changes in the Next Two Years to Retiree Health Coverage: Introduce a Three-Tier Cost-Sharing Formula for Prescription Drugs, by Firm Size, 2002

	<i>Very Likely</i>	<i>Somewhat Likely</i>	<i>Somewhat Unlikely</i>	<i>Very Unlikely</i>	<i>Already Done So</i>	<i>Don't Know</i>
<b>FIRM SIZE</b>						
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>3%</b>	<b>14%</b>	<b>6%</b>	<b>54%</b>	<b>12%</b>	<b>11%</b>
Midsize (200-999 Workers)*	1	6	21	29	39	5
Large (1,000-4,999 Workers)*	6	14	13	24	40	4
Jumbo (5,000+ Workers)*	7	11	9	20	53	1
<b>ALL LARGE FIRMS (200+ WORKERS)*</b>	<b>3</b>	<b>8</b>	<b>18</b>	<b>27</b>	<b>40</b>	<b>4</b>
<b>ALL FIRM SIZES</b>	<b>3%</b>	<b>13%</b>	<b>8%</b>	<b>50%</b>	<b>16%</b>	<b>10%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.

## EXHIBIT 11.14

In Firms Offering Retiree Health Benefits, the Likelihood the Firm Will Make the Following Changes in the Next Two Years to Retiree Health Coverage: Increase Retirees' Cost-Sharing Requirements When Purchasing Prescription Drugs, by Firm Size, 2002\*

	<i>Very Likely</i>	<i>Somewhat Likely</i>	<i>Somewhat Unlikely</i>	<i>Very Unlikely</i>	<i>Already Done So</i>	<i>Don't Know</i>
<b>FIRM SIZE</b>						
All Small Firms (3-199 Workers)	11%	19%	6%	46%	3%	15%
All Large Firms (200+ Workers)	9	28	14	42	3	3
<b>ALL FIRM SIZES</b>	<b>11%</b>	<b>20%</b>	<b>7%</b>	<b>45%</b>	<b>3%</b>	<b>13%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distributions from All Firms.



EMPLOYER HEALTH BENEFITS  
2002 ANNUAL SURVEY

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Employer  
Attitudes and  
Opinions

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SECTION

12

## EMPLOYER ATTITUDES AND OPINIONS

EMPLOYERS PLAY A SIGNIFICANT ROLE IN HEALTH INSURANCE COVERAGE FOR AMERICANS – PROVIDING HEALTH BENEFITS TO ALMOST TWO-THIRDS OF THE NON-ELDERLY IN 2000 – SO THEIR ATTITUDES, KNOWLEDGE, AND EXPERIENCES ARE IMPORTANT FACTORS IN HEALTH POLICY DISCUSSIONS.<sup>9</sup>

THIS YEAR'S SURVEY ASKED EMPLOYERS A NUMBER OF QUESTIONS ABOUT THEIR RESPONSES TO RISING HEALTH INSURANCE PREMIUMS, INCLUDING COST-SHARING DECISIONS AND CONCERNS ABOUT FUTURE COSTS. GENERALLY, COMPANIES CONFIRMED WHAT THEY TOLD US LAST YEAR – MANY INCREASED EMPLOYEE COSTS THIS YEAR AND A FEW INTRODUCED 'TIERED' BENEFITS IN ORDER TO PROMOTE COST-CONSCIOUSNESS AMONG WORKERS. MANY FIRMS ARE CONCERNED THAT GREATER COST SHIFTING MAY BE REQUIRED NEXT YEAR.

- ▶ The majority of firms cite health insurance as the employee benefit of greatest concern to the company<sup>10</sup> (EXHIBIT 12.1).
  - *Over half of all firms (53%) and two-thirds (65%) of all large firms (those with 200 or more workers) say health insurance poses the greatest concern among their employee benefits, a far higher percentage than those that cite salaries (33% of all firms) or worker's compensation (9% of all firms).*
- *Pensions, sick leave, and disability are cited as the benefit of greatest concern in less than 5% of firms.*
- ▶ The percentage of large firms (200 or more workers) that raised employee costs for coverage in 2002 was even higher than the percentage that told us last year that they were likely to do so (EXHIBIT 12.2).
  - *In 2001, 44% of large firms (200 or more workers) reported they were very likely to increase employee costs for coverage in the following year. In fact, 56% of these large firms increased employee costs this year, representing 52% of covered workers.*

### NOTE:

<sup>9</sup> Firms tend to be positive about their current and future economic performance. While employers are cautious about their expectations for the economy in the next year, they are generally positive about the future of their own company. Ten percent of employers said they were optimistic about the economy, compared to 63% who said they were 'somewhat optimistic', and 20% who were 'somewhat pessimistic'. Ninety percent of all firms said they were 'very' or 'somewhat optimistic' about expectations for their company over the next year.

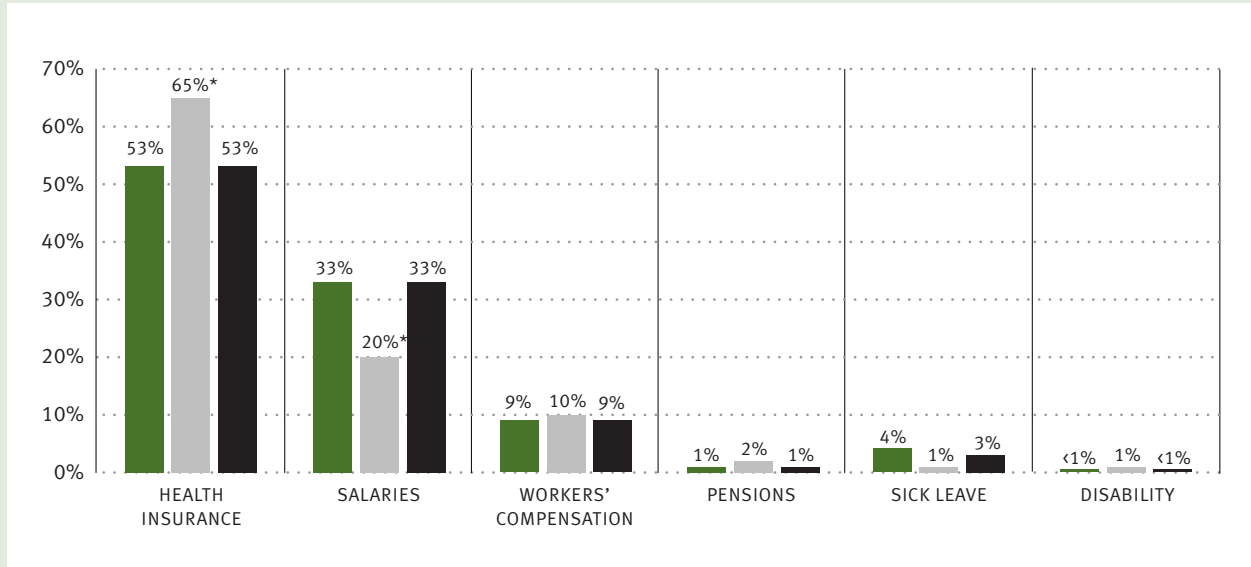
<sup>10</sup> In order to determine whether an individual is the appropriate person to respond to the survey, researchers at NRI ask to speak with the "individual who is most knowledgeable about the health benefits programs that [your] company may offer?" As a result, it is possible that respondents to the Kaiser/HRET survey may be more familiar with health benefits than pensions or salaries, though it is certainly the case that most human resources functions (e.g., salary, pension, workers compensation) are often administered by the same person, particularly in small firms.



- ▶ To get a sense of the way firms deal with rising health care premiums, we asked firms offering health coverage a series of questions about how they tried to control costs this past year, as well as how they might do so in the future. In many cases, employers report increasing employee costs in 2002, and many indicate that they may raise employee costs further next year (EXHIBIT 12.4).
  - Twenty-nine percent of all firms and 56% of large firms (200 or more workers) increased the amount that workers pay for health insurance in 2002. The 29% of all firms that increased what workers pay represent 64% of covered workers.
  - When asked about the likelihood they will raise employee costs next year, 43% of all firms and 78% of large firms (200 or more workers) say they are very or somewhat likely to increase the amount that employees must pay for coverage in 2003.
  - Twenty-eight percent of firms report that they increased the amount that employees pay for prescription drugs this year. Thirty-four percent of firms say they are very or somewhat likely to raise employee costs for prescription drugs next year.
- Around 20% of all firms, and nearly one-third of large firms (200 or more workers) report that they increased employee deductibles or office visit copayments in 2002. Looking to next year, about 32% of all firms and 42% of large firms (200 or more workers) report that they are very or somewhat likely to increase deductibles. Twenty-eight percent of all firms report that they are likely to increase office visit copays or coinsurance.
  - Sixteen percent of firms report they are very or somewhat likely to restrict employees' scope of benefits, but few firms say they are very or somewhat likely to restrict employee eligibility for coverage or drop coverage entirely. Six percent of firms suggest they might drop coverage in the future.
- ▶ Employees are at great risk of higher costs or reduced benefits in 2003 if firms face very large premium increases next year or if the economic downturn continues (EXHIBITS 12.5, 12.6).
  - If the economic downturn continues, 57% of all firms and 83% of large firms (200 or more workers) report that they would be very or somewhat likely to increase the amount that employees pay for coverage. Thirty-four percent of all firms would be very or somewhat likely to reduce benefits under these circumstances, while smaller percentages of firms report that they would be very or somewhat likely to drop coverage (8%) or reduce eligibility (10%).
- If faced with a 20% premium increase, about 59% of all firms and 86% of large firms (200 or more workers), report that they would be very or somewhat likely to increase the amount that employees pay for coverage (EXHIBIT 12.6).
  - Fifty-five percent of firms report that they would be very or somewhat likely to reduce the employee's scope of benefits if faced with a 20% premium increase next year.
  - A noteworthy portion of firms say that they would be very or somewhat likely to restrict eligibility (18%) or drop coverage (10%) if faced with a 20% cost increase next year.
- ▶ Employers are very concerned about their ability to afford rapidly rising premiums (EXHIBIT 12.7).
  - After three consecutive years of sharp increases in the cost of coverage, 61% of firms report they are very or somewhat worried that the cost of health insurance will outstrip their ability to afford health insurance for their employees.
- ▶ The variety of new cost-sharing techniques in the health care marketplace suggests an increased level of complexity for consumers (EXHIBIT 12.8).
  - Two-thirds of employers (67%) say they perceive that employees find health benefits decision-making much or a little more confusing compared to a few years ago. Among small firms (3-199 workers) more than one-third (35%) say health benefits decisions are much more confusing for employees than in the past.

EXHIBIT 12.1

Percentage of Firms That Report the Following Benefits Cause the Greatest Cost Concern for Their Company, 2002



■ ALL SMALL FIRMS (3-199 WORKERS)  
■ ALL LARGE FIRMS (200+ WORKERS)  
■ ALL FIRMS

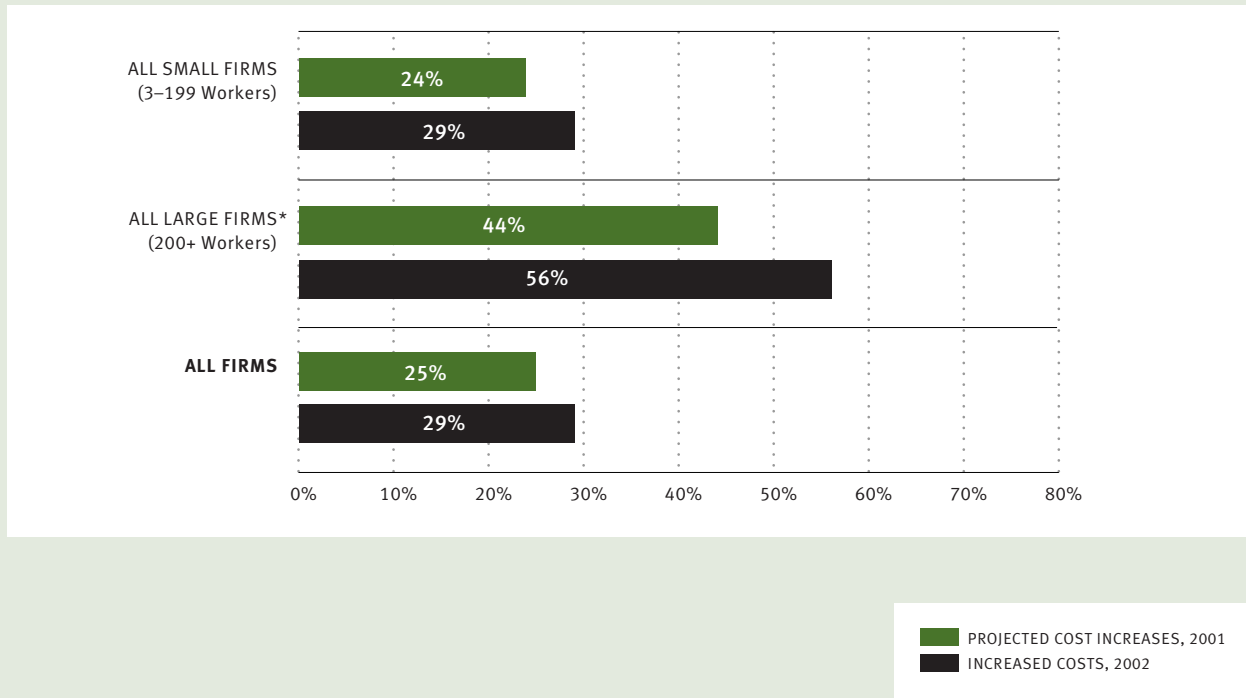
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Estimate is statistically different from All Firms.

EXHIBIT 12.2

Percentage of Firms in 2001<sup>1</sup> That Reported They Were Very Likely to Increase Employee Cost for Coverage Compared to Those That Report They Increased Employee Costs in 2002, by Firm Size



SOURCE :

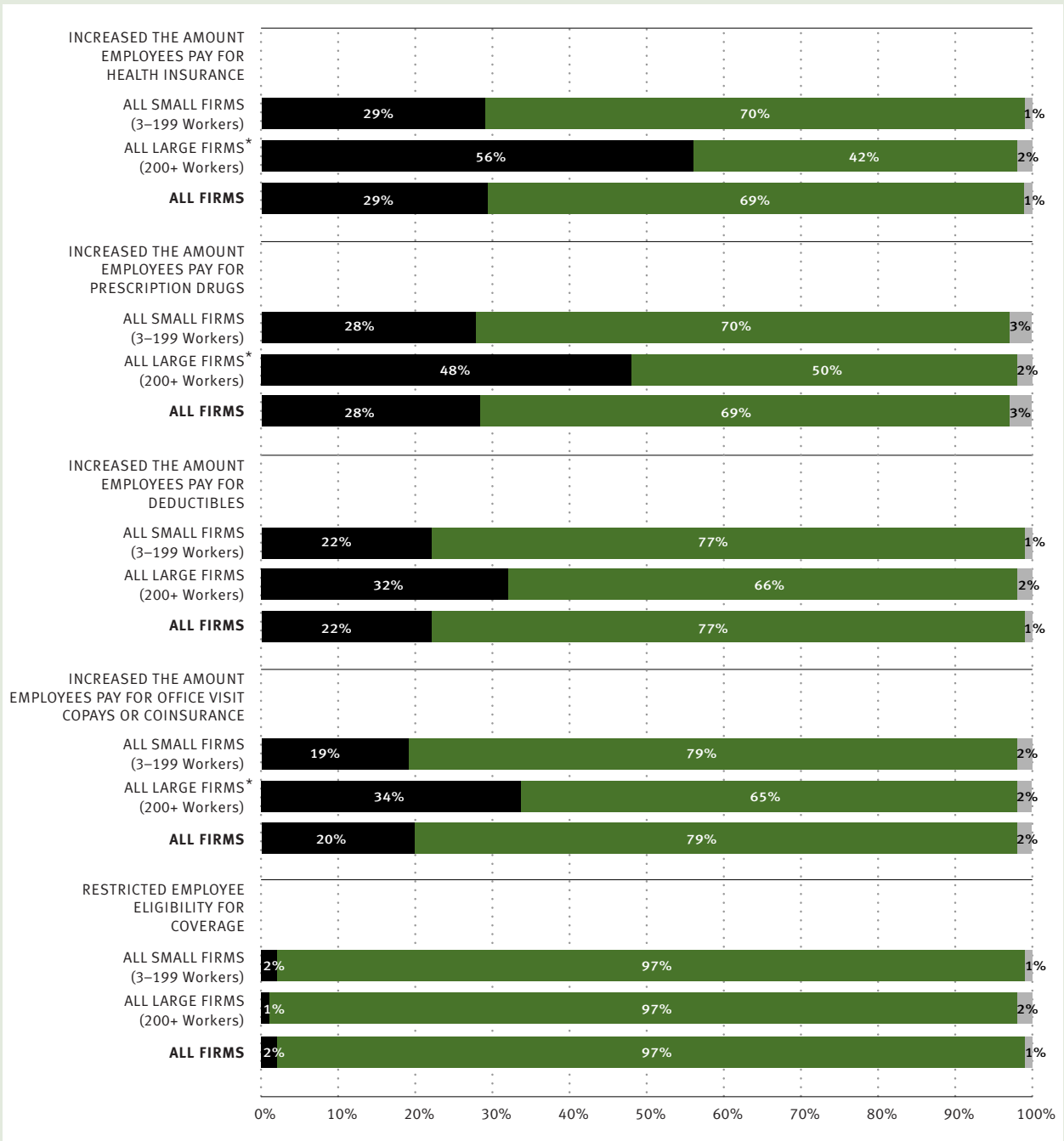
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001, 2002.

NOTE: <sup>1</sup> In 2001, 19% of all firms reported that they were 'somewhat likely' to increase the employee's share of cost in the next year. Eighteen percent of all small firms said they were 'somewhat likely' to increase employee costs compared to 31% of large firms.

\* Estimates are statistically different within firm size.

EXHIBIT 12.3

Percentage of Firms That Report They Have Made the Following Changes to Any of Their Health Plans in the Last Year, 2002



SOURCE :

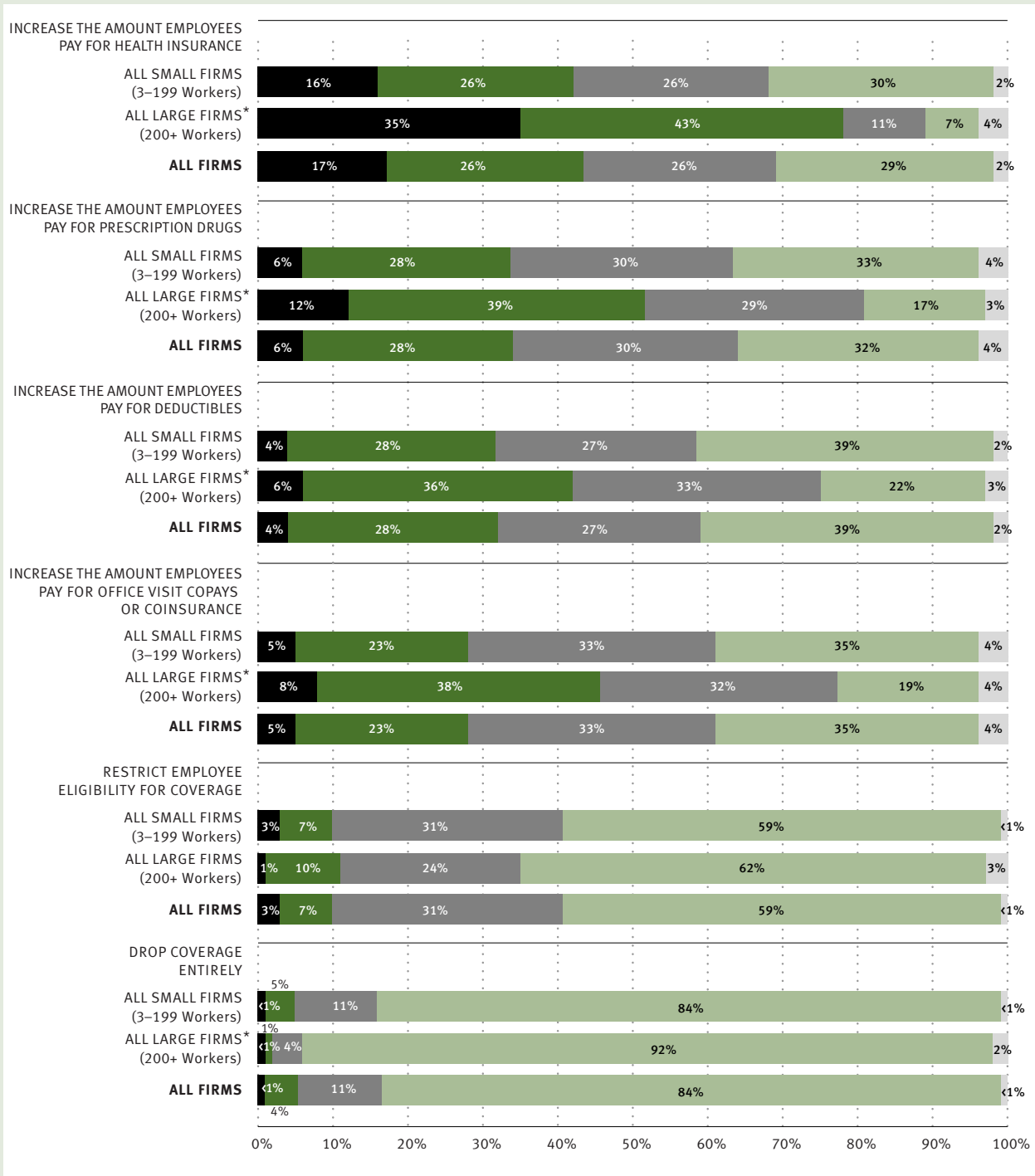
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.

YES  
 NO  
 DON'T KNOW

EXHIBIT 12.4

Percentage of Firms That Report They Are Likely to Make the Following Changes in the Next Year, by Firm Size, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.

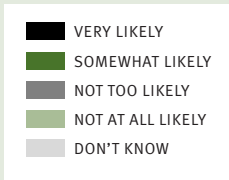
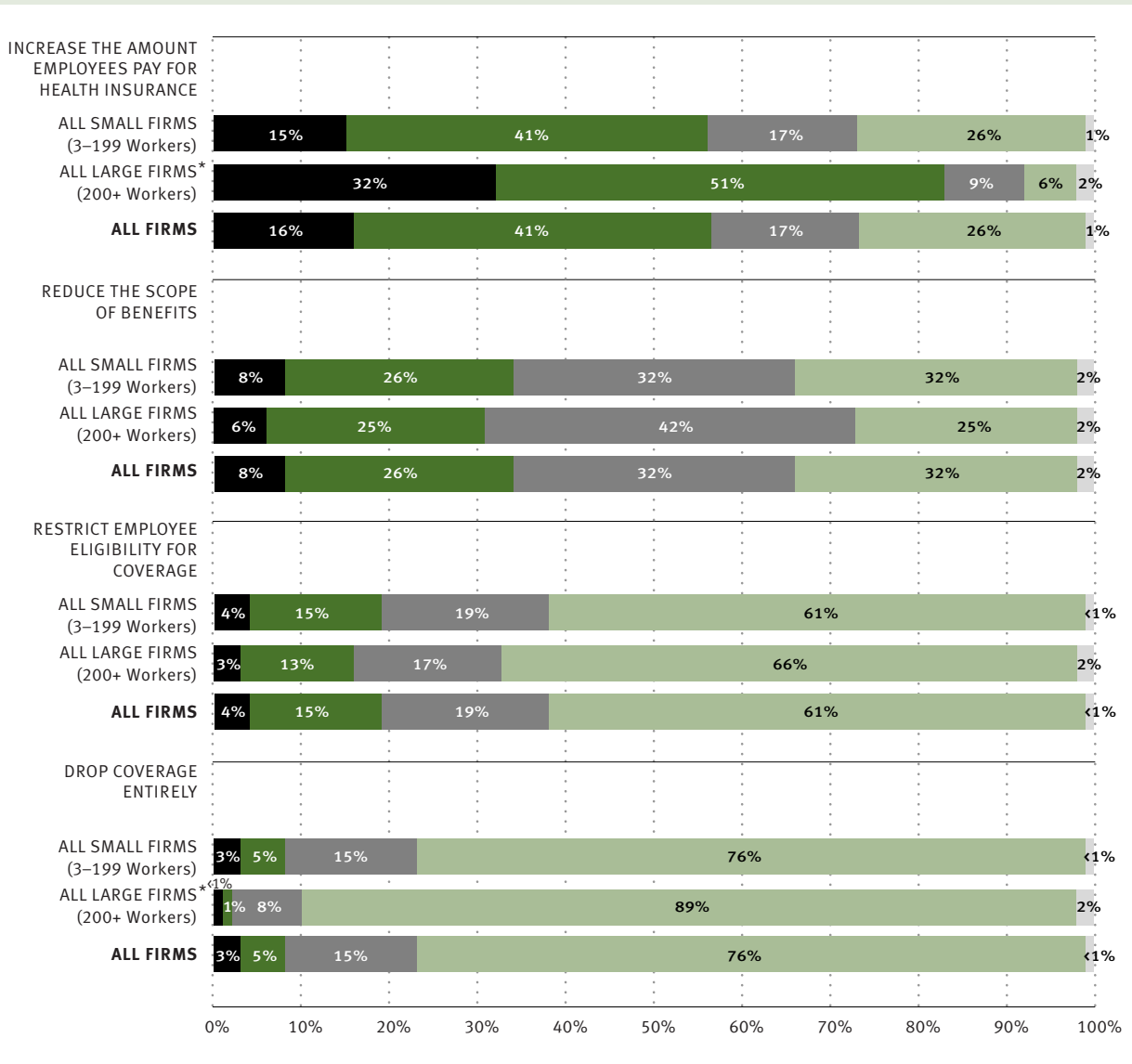


EXHIBIT 12.5

Percentage of Firms That Report They Are Likely to Make the Following Changes in the Next Year if the Economic Downturn Continues, by Firm Size, 2002



VERY LIKELY  
 SOMEWHAT LIKELY  
 NOT TOO LIKELY  
 NOT AT ALL LIKELY  
 DON'T KNOW

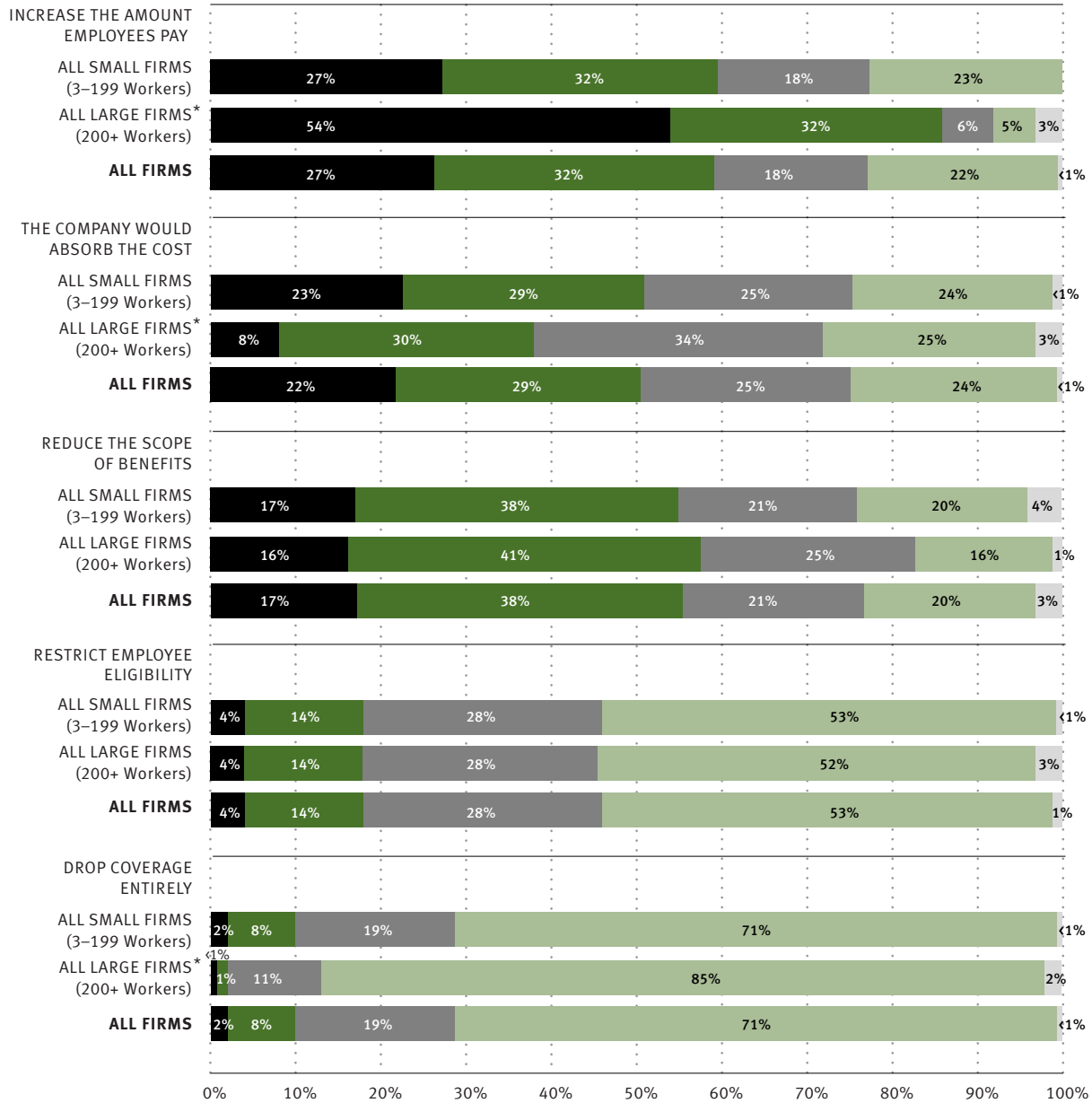
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.

EXHIBIT 12.6

Likelihood of Employers Making the Following Changes to Employee Health Benefits if the Cost of Providing Health Insurance Goes Up by Twenty Percent, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.

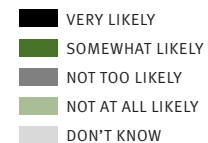
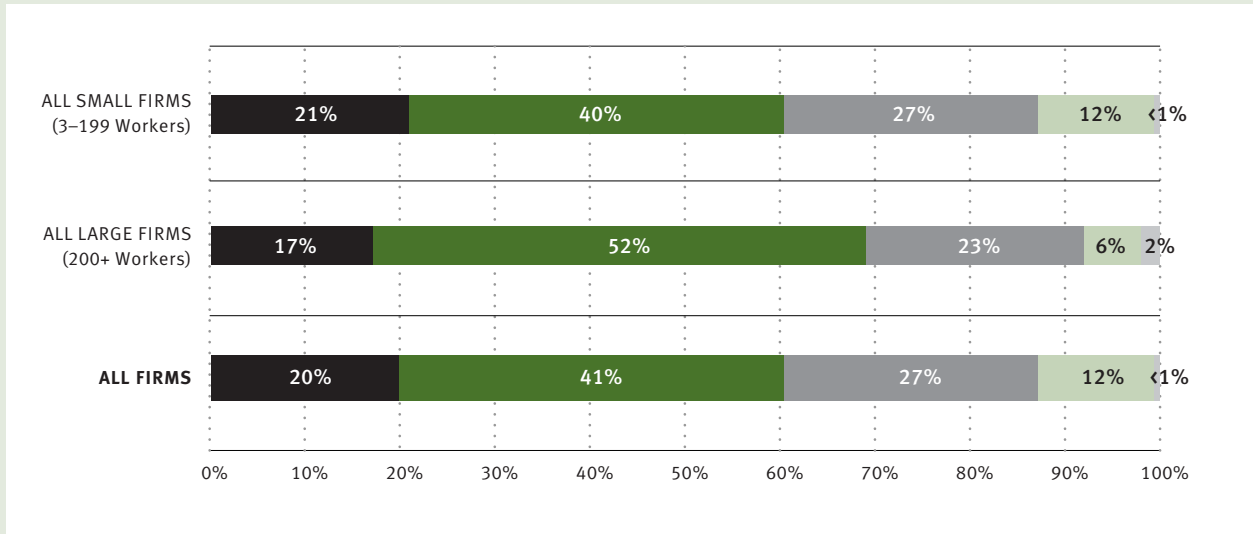


EXHIBIT 12.7

Percentage of Firms Worried That the Amount a Firm Pays for Health Insurance Will Increase Faster Than a Firm Can Afford, by Firm Size, 2002\*



SOURCE :

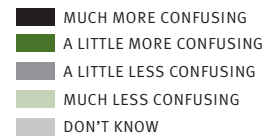
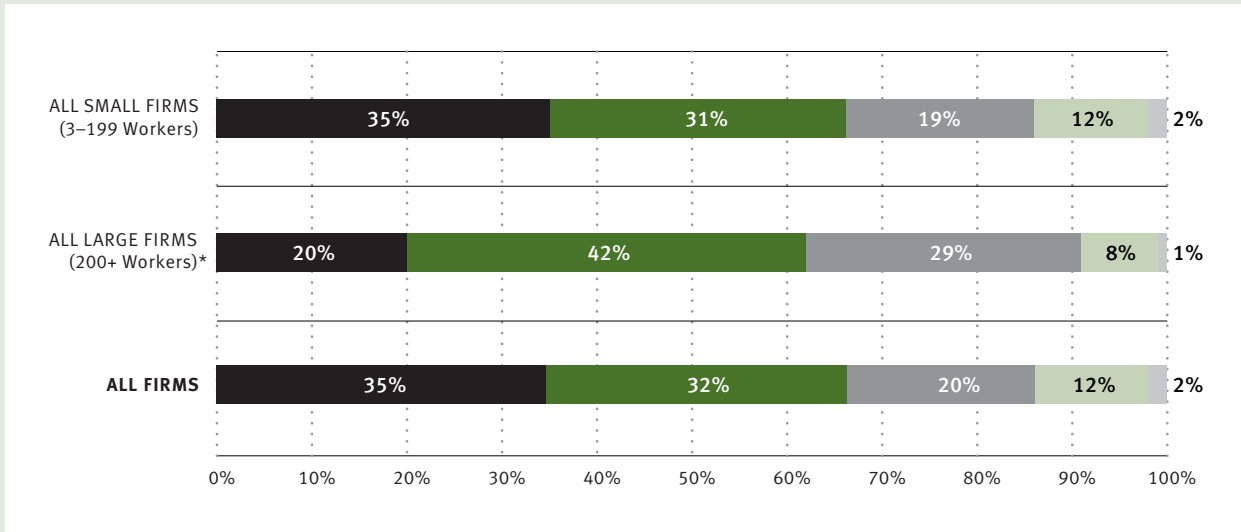
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Tests found no statistically different distributions by Firm Size.



EXHIBIT 12.8

Firms' Perceptions of Whether Employees Find Health Benefit Decisions Confusing Compared to a Few Years Ago, 2002



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

\* Distribution is statistically different from All Firms.



## S U B J E C T I N D E X

Benefits			
Acupuncture	104, 108, 109		
Adult physicals	104, 108, 109		
Annual ob/gyn visit	108, 109		
Chiropractic	104, 108, 109		
Inpatient mental health	105, 108, 109, 130		
Oral contraceptives	104, 108, 109		
Outpatient mental health	108, 109, 118, 130		
Prenatal care	104, 108, 109		
Prescription drugs	104, 108, 109, 119, 142, 143, 150, 153, 157		
Well-baby care	104, 108, 109		
Brand name drugs	118, 120-123		
Carve outs	118, 119, 126, 127, 128, 129		
COBRA	43		
Coinsurance	92, 99, 100, 101, 118, 123, 157, 160, 161		
Contribution policies	54, 63, 64		
Contributions			
Employee/worker	74, 76-84		
Employer covers 100% of premium	85, 86		
Employer/company	80-83, 87, 88		
Conventional plans	13, 25, 27, 28, 60, 61, 68, 78, 83-88, 93, 94, 95, 99, 104, 105, 109, 111, 113, 119, 135		
Copayments (copays)	92, 97, 98, 100, 101, 122, 157		
Cost concerns	158, 164		
Coverage	42-51		
Deductibles	91-95, 157, 160, 161		
Defined contribution	33, 38, 39		
Disease-specific limits	105, 115		
Drop coverage	157, 161, 162, 163		
Eligibility	42, 43, 46, 157		
Restrictions	157, 161, 162, 163		
Enrollment	68-71		
Formulary	118, 124, 125		
Funding arrangements			
Fully insured	12, 19, 20, 137		
Self-insured	12, 19, 132-137		
Generic drugs	118-123, 143		
Health plan changes	156, 157, 159, 160		
Future	156, 157, 161		
If costs increase	157, 163		
If downturn continues	157, 162		
HMO plans	25, 27, 28, 54, 55, 56, 60, 61, 65, 68, 71, 78, 79, 83-88, 96, 98, 109, 121, 123, 124, 132, 135		
Hospital	55, 92, 96, 105		
Low wage	36, 82		
Maximum lifetime benefit payable	104, 112, 113		
Maximum out-of-pocket liability	104, 110, 111		
Medical savings account (MSA)	33, 39		
Mental health benefits	104, 108, 109, 118, 119, 128, 129, 130		
Non-preferred drugs	118, 120-123, 143		
Non-preferred provider	92, 94, 95, 100, 101		
Offer rate	32-37		
Part-time workers	32, 36, 42, 43, 49		
Physician(s)	55, 65, 68, 92, 96, 97, 98		
Plan choice	54, 58, 59, 60		
POS plans	25, 26, 27, 28, 54, 55, 56, 60, 62, 65, 68, 78, 79, 83, 88, 92-96, 101, 104, 105, 109, 118, 123, 124, 132, 136		
PPO plans	25, 27, 28, 56, 60, 62, 68, 78, 83-88, 92-96, 100, 104, 105, 110, 112, 113, 118, 123, 124, 132, 136		
Pre-existing condition clauses	132, 138, 139, 140		
Preferred drugs	118, 120-123		
Preferred provider	92, 94, 95, 100, 101		
Premiums			
Family	23-29		
Increases	15, 17, 19, 20, 21, 22		
Single	23-29		
Prescription drugs	104, 108, 109, 118-127, 142, 143, 150, 153, 157, 160, 161		

Reduce benefits	107, 157	Tiered cost-sharing arrangements	
Retiree coverage	142-149	Hospitals	92, 96
Benefit changes		Prescription drugs	118, 120, 121, 142, 143
Future	150-153	Providers	92, 96
Past	150, 151	Turnover (attrition)	36
Early retirees	143, 146, 148	Underwriting cycle	12
Medicare-age retirees	142, 143, 147, 148	Union workers	32, 36, 75, 142, 149
Take-up rates	42, 46	Utilization review	55, 65, 105, 114
Temporary workers	43, 49, 50	Waiting periods	51, 140